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economic Review

Serbia and Montenegro, Happy New 2003

In an attempt to sum up the results of the year 2001 in the field of economy politics and nation, we witness opposing evaluations. Of course, reasons for such an opposition may be found in psychological sphere or in the field of political marketing, but due to limited space, we will rather stick to the conclusion that, when making such a summary evaluations, as a rule, measurable and immeasurable categories are mixed. Therefore, we will list only the indisputable and already measured coordinates of the transition beginning, so as to foresee the situation in the society in 2002 on that basis.

The Politics

The two-third majority of the ruling coalition DOS in the Republic Parliament, which enables a radical change of the system, has not provided real political stability of the society since it more resulted from consensus of will for changes than from consensus of technique, speed and scope of these changes. Relations between Serbia and Montenegro, authority and prerogatives at federal level, cooperation with the Hague Tribunal, disproportion in popularity of individual parties in the opinion polls relative to division of power based on quotas set in the coalition agreement, etc. reflected on the work of the Republican Parliament so frequently that it most often passed legislative acts not by two-third but rather by tiny majority.

FRY Basic Economic Indicators	2001	2001 / 2000	I 2002	I 2002 / XII 2001	I 2002 / I 2001
GDP growth, in real 1994 prices	...	8.4%	...	...	...
Industrial Production	...	0.0%	...	-17.0%	-5.4%
Montenegro	...	-0.7%	...	-33.8%	-16.0%
Serbia	...	0.1%	...	-15.8%	-4.8%
Central Serbia	...	-4.0%	...	-16.3%	-8.0%
Vojvodina	...	9.2%	...	-14.7%	2.4%
Average nominal net wage - Serbia in YuD.	...	...	7,435	-12.07%	...
Nominal gross wage - Serbia, in YuD. [1]	...	...	10,719	-11.73%	...
Real net wage - Serbia, in YuD [2]	...	...	7,472	-11.37%	...
Ratio of consumer basket to average net wage	...	...	1.5	...	...
Unemployment Rate - registered [3]	29.67%	4.4%	30.0%	0.3%	4.7%
Montenegro	...	...	39.0%	0.0%	...
Serbia	26.76%	4.5%	29.3%	0.3%	5.3%
Current account in USD millions	-624	-87.1	..	...	...
Total balance, in USD millions	-2,834	-58.5	..	...	...
Export - USD millions [4]	1,903	10.5%	...	...	...
Montenegro	178	10.3%	...	...	...
Serbia	1,721	10.4%	...	...	...
Import - USD millions [4]	4,837	30.3%	...	...	...
Montenegro	529	49.3%	...	...	...
Serbia	4,261	27.9%	...	...	...
Monetary supply (M1), end of period, in YuD billion	45.16	109.8%	66.74	0.74%	133.4%
Cash	15.4	103.4%	26.07	2.57%	178.5%
Deposit	29.82	113.7%	40.67	-0.40%	111.2%
Real money supply, end of period, in DEM million	1,483	94.1%	21.77	0.74%	128.0%
Hard currency reserves, in million USD (end of period)	1,169	123.0%	1,303	11.5%	146.8%
Discount rate - monthly level	1.47%	-26.65%	1.3%	0.00%	-35.00%
Market interest rate, monthly level	4.78%	-18.40%	3.71%	-0.26%	-35.59%
Retail prices - Serbia	...	91.8%	...	0.6%	30.6%
Consumer prices - Serbia	...	93.3%	...	-0.5%	30.5%
Producer prices - Serbia	...	87.8%	..	0.1%	16.4%
Average exchange rate - Din/EUR - average	59.45	16.45%	59.93	-0.07%	2.48%

[1] By the gross wage calculation methodology applied as of June 1, 2001

[2] Deflator is cost-of-living index

[3] Figures refer to December 2001.

[4] Preliminary figures

The foreign trade data were not available in January

In this issue:

Determination for changes and political stability of two-third of electors has been reflected in public and political life as a permanent but unclear ideological crisis and policy of constant blackmails.

The State

Evaluation of the condition of society

Unresolved or no prerogatives of the federal state in Montenegro, of Serbia in Kosovo, of Vojvodina over its own resources, the *chancellor* Constitution of FRY with relatively strong president and the *presidential* Constitution of Serbia with really strong chancellor; predominance of party interests over the state functions and transparency of work of the DOS Coalitional Presidency as a non-institutional body; lack of the ambassador in the most important capital in the world; lack of constitutional reforms, changes in the judicature, police and army that are running late; lack of real power of local autonomy and slow and hard confrontation with the volume of inherited economic and financial catastrophe created an impression of unestablished state and national and legal insecurity of the citizens.

The Economy

Abandonment of macroeconomic reforms from one center; intensive return of our country into international economic and financial institutions as a prerequisite for serious investments, which is overburdened with political conditions; monetary and financial stability coupled with accelerated adjustment of disparity in prices of electricity and telephone services; fiscal changes with survival of the same ownership structure of capital; slow legislative harmonization vital for initiation of infrastructure investments and credit policy; huge disproportion between the expected and the achieved change in individual standards of living; these are some of the reasons for citizens to comprehend the reforms as indisputable but insufficient, determined but unequal.

Finally, huge achievement of the Government's policies in different fields as a rule are assessed from the outside and by comparison with the first steps of transition in other countries, while the citizens evaluate them on the basis of their own standards of living and relative to their own surroundings.

Conditions for transitions are provided

The main characteristics of 2001 might be illustrated through all these absurdities: 1.) Changes initiated in that year do not allow return to the old system and 2.) Basic prerequisites for real transition of society were created. This would lead us to a gloomy conclusion in this issue. Namely, transition is not as much political and economic, but rather psychological category. All the indicators which point out that in 2002 the crisis of relations between Serbia and Montenegro will be resolved and the basis of political stability for enacting essential system laws and providing minimum but constant growth of 4-5% of standards of living will be agreed on, but still do not report about individual traumas caused by these changes. Or, laconically: for us as a state, the year 2001 was the hardest, and now in the down of 2002 we are at the beginning of the worst.

Therefore, the title is, as a matter of fact, optimistic: Happy New Year of 2003. And the touchstone of this message is process of sorting out the relations between Serbia and Montenegro.

Serbia and Montenegro

Eight months ago a creation of basic principles for redefining the relation between Serbia and Montenegro in potentially different union was initiated.

The main reason was not a search for the legal framework for individual political ambitions, but an awareness that dysfunction of the current state evolved into a too large burden for the citizens of both Serbia and Montenegro and cooperation with the international community. (An example is inability of realization of financial arrangements for Serbia, as they need to be ratified in the Federal Parliament)

What are these principles?

Serbia will not impose any solution on Montenegro.

Serbia accepts every solution for Montenegro that the Montenegrin citizens achieve by political means.

A minimum of clear prerogatives is necessary

Serbia recommends participation of the EU representatives in talks since the basic objective of both Serbia and Montenegro is to *prepare themselves* functionally for future membership in the EU.

In this way, Serbia does two things: recommends itself as a good partner for all integrations (with Montenegro, in the region and in Europe), but takes a passive role in negotiations and de facto leaves the EU official negotiator to, advocating the EU principles, advocates the Serbian interests, too. All the more so considering that the mechanisms of reconciliation between traditional comprehension of state and disproportion in economic power, area and population already exist in the EU. And in order to apply these experiences, it is necessary to establish a minimum of clear prerogatives in the field of customs, monetary, fiscal, defense and foreign policy, of course, with the emphasis being on the need to create an efficient state through a definite solution.

Political consequences:

1) The DPS and the SNP must take responsibility for the solution in front of the Montenegrin citizens (for that purpose, they have two-third majority and joint party past), while the DOS must take responsibility in front of the Serbian citizens (for which they have two-third majority and joint oppositional and party past);

2) Political elites in both republics have, independently of the type of compromise, to set the principles and provide the support for constitutional changes.

To the contrary, the whole area becomes nothing more than a polygon for an unclear and dangerous experiment. And, of course, unreal political ambitions.

The Danube and Prospects of Development of FR Yugoslavia

Traffic includes transportation of goods and passengers, organization of transport, transportation of news, telecommunications, radio and television services and tourism. Its most important part is transportation since it enables connection between the sources of raw materials, production and consumption, namely economy as a whole, and also significantly contributes to the national income of a modern state. According to the latest data of the EU Statistics Bureau, in this field, after all expenses are excluded, the profit of about EUR 1,000 billion was achieved, i.e. more than 10% GNP, while at the same time it employs more than 10 million people.

Transportation of goods and passengers should allow connection of different points within the borders of one state or out of them. Unpleasant experience form the previous period convinced us that development and prosperity is not possible isolated from the surrounding. Connection with the region is achieved through appropriate networks, so the over-boarder characteristic is immanent to traffic. Every intervention in the field of traffic requires coordinated work - not only on the issue of construction and maintenance of the existing infrastructure, but also on preparing and monitoring legal regulations.

Development is impossible in isolation from surrounding

In the context of priorities set by the Federal Government, accession to the EU, i.e. entering into the *Agreement on Stabilization and Association* as the first step on that path, is stressed as the objective. One of the important questions that must be resolved is the question of infrastructure. This issue is treated at the level of European continent as a whole, and therefore it would be wise for FR Yugoslavia to follow the developments in this field, all the more so considering the fact that Yugoslavia is situated on a significant transit road.

In 1992 the European Conference of the Ministers of Transport initiated discussion on building trans-European corridors for multi-modal (or combined) traffic, which was, after the Crete (1994) and Helsinki (1997) Conferences, formally realized. The agreement on 10 pan-European corridors was made, which are to enable connection of existing infrastructure at the level of the whole continent. (For FR Yugoslavia, corridors VII and X are especially important).

Inland navigation is in compliance with environmental standards

A similar initiative was started within the EU almost simultaneously. The main objective of the Union from its beginning in 1950s was establishment of united market, which is not possible without well-organized and efficient system of traffic in terms of laws which regulate it and infrastructure. Although the joint transport policy was explicitly confirmed in *the Foundation Agreement*, much was not achieved until *the Unique European Act* (1987) was passed. Roadways were not equally developed and loaded so it was more about a mosaic of national road networks of different degree of development and utilization. As the EU territory was enlarging and the united market had to be set, under the 1992 *Maastricht Contract*, a new chapter was introduced which dealt with this issue, but not only in the Union, but also at trans-European level. The Union showed its interest not only in actual establishment and functioning of the joint market, in connecting the center with the outskirts, but also actually opened the way and prepared the grounds for all future enlargements.

Regional cooperation as a prerequisite for association of Yugoslavia

Nowadays, Europe largely discusses the environment protection issues and searches for the most adequate solutions. Due to damaging emissions, traffic is also subjected to these measures. Plans are being created on reorientation toward the combined traffic with the major emphasis being on popularization of slightly forgotten and marginalized inland navigation. Inland navigation fully corresponds to increasingly strict ecological standards and at the same time stands as the most economical way of transportation.

The main inland navigation routes in Europe are the Danube and the Rhine. The 1992 termination of construction and opening for work of the channel the Danube - the Rhine - the Main meant practical realization of the shortest relation on the line the Black Sea - the North Sea. However, the events from our near past that led to disintegration of SFRY and especially the 1999 bombardment disconnected this

The Danube is navigable along its whole course in Serbia

significant route. Aware of the significance of the Danube and prospects of its development, the European Union changed its policy, which was confirmed by signing the *Protocol on Approval for realization of pan-European corridor* VII (shipping route of the Danube, from Germany to the Black sea, in the total length of 2415km) on February 27 2002. The highest representatives of all the countries situated on the banks of the Danube that are directly interested in this issue were present at the signing ceremony, while the Union was represented by Loyola de Palacio, the vice president of the Commission in charge of the issues related to traffic and energy. This document should allow closer cooperation and coordinated work on infrastructure establishment. The Union has implicitly shown its interest for settling this issue through financing the cleaning of the Danube (it bears 80% of expenses).

Geographical position of FR Yugoslavia clearly indicates that this is the country interested in development of traffic infrastructure that will enable better connections both within the country itself and toward other countries in the region, but it could be also observed as a significant profit resource. It is assumed that physical separation of Greece was one of the reasons for SFRY to be at the doorway of the EU membership in early 1990s, even prior Austria and Sweden, which became full members in 1995.

The international community basically changed its attitude toward Yugoslavia as of October 2000, while the talks held at the highest level indicate that it is real to expect soon conclusion of the Agreement on Stability and Association and initiation of negotiations. One of the prerequisites set by this new agreement is a regional cooperation. This Protocol, already signed by FRY, is an ideal opportunity for this, providing that it does not wind up as dead letter.

Profits of tourism, transport and agriculture

The Danube valley is the shortest natural connection between western and southeastern Europe. It is navigable along its whole course in FRY. Consequently, the state has an interest to invest into development of inland navigation since the return of ships to this river would mean automatically much more people who pass through and bring profit. All the countries situated along the Danube course have been already undertaking concrete measures and making programs of future development, aware of possible benefits.

Return of people and goods to the Danube raises the question of legal regime of navigation. It is important to stress here that the inland navigation is practically the only branch of land transport with no international conventions on the transportation contract (they have existed in road and rail traffic for more than 50 years). The 2000 *Budapest Convention*, which achieved agreement on this issue, is not enough familiar here, although for the first time it regulates the contract on international commodity transport in a unique way.

Shipping along the Danube, upstream or downstream, could be designed in the way to offer various contents, attractive to the wider public, even to the public with the most exquisite taste. The Danube passes through couple of national parks of great beauty (Fruska Gora, Djerdap), the natural inhabitat of some rare plants and animal species; for those more inclined to cultural and historic contents there could be organized visits to the towns the Danube passes through.

There are also a number of hunting grounds in the vicinity, and thus popularization of the Danube could mean a return of hunters who used to be regular guests in these areas in the past.

Serbian wines are certainly not French, but they win awards at international competitions, showing high quality and possibility for sale out of Yugoslavia. Some of the most famous wines are form the vineyards in the vicinity of the Danube (wines from Fruska Gora, Banat, Vrsac or Negotin). Accordingly, investments in the Danube would provide multiple sources of profit, not only from transport, but also from development of tourism and agriculture.

Two pan-European corridors

The truth is that required infrasrtuctural investments are not small and nothing was done in that sense in the past. However, plans of the new coordinator of the Stability Pact, Erhard Busek show that one of the priorities is establishment of the free trade zone between the states in the region prior the end of 2002, which requires a coordinated work. One of the main forms of cooperation will be harmonized development of the transportation network, for which the financial resources have been already provided.

It is important to remind as well that the territory of FRY is crossed by another pan-European corridor - a corridor X, which is significant for road and rail traffic.

FR Yugoslavia Gets Closer to the European Union

Today, more than one year after the October changes, where is Federal Republic Yugoslavia in relation to the European Union? In particular, what is its place as compared to the other countries of the Western Balkan region in relation to the European integration process, especially to the European Union? How far or how near Yugoslavia is to the associated membership in the Union?

Although it is about the country which has existed for 10 years now, its relations to the European integration were marked with sanctions and peace mediation of the Union representatives, but we have never had any form of institutionalization of mutual relations. Thus, FRY is the only country emerged on the territory of former Yugoslavia that has completely different experience and fully stopped the continuity of its relations with the European communities, which are largely based on contractual and financial relations SFRY had previously established with those communities.

Continuity of relations fully stopped

In the meantime, the Union has developed some conditions that the country must meet as to reach mutual contractual relations. The main prerequisite for future successful cooperation of FR Yugoslavia and the EU, as set by the Union itself, is stability of the former Yugoslavia region, since a successful economic cooperation depends primarily on whether the danger of new conflicts and larger political instabilities is removed.

Other prerequisites are not less important. The concrete prerequisites are the following: mutual recognition and sub-regional cooperation among the states emerged on the territory of former SFRY, cooperation with The Hague Tribunal, free return of refugees and displaced persons. FRY furthermore has to sort out particularly significant issue, which is, apart from unambiguous political and state and legal meaning, a key condition for practical actions on initiation of association process: the issue of redefinition of relations between two Yugoslav federal units, Serbia and Montenegro. This is, actually, a preceding question, since it would resolve the question of prerogatives for initiation of talks on entering into the Agreement on Stabilization and Accession, as well as for organization of all future relations with the Union.

Apart from these requirements that are specifically related to Yugoslavia, there are also the additional conditions which all the countries that tend to become the EU members or to establish contractual relations with the EU must fulfill. Namely, the conditions set at the 1993 Copenhagen Summit of the European Union Council, such as respect for human rights, democracy, rule of law (that is, modern civil society) and market economy, i.e. successful implementation of the process of reforms that should lead to accomplishment of these requirements, are the conditions that must be fulfilled prior to any talks on establishment of any form of institutional cooperation between Yugoslavia and the European Union.

Stability - the first condition

Relations of SFRY and Three European Communities

Institutionalization of the relations between former SFRY and three European communities started on December 2, 1967, when the *Declaration on relations between SFRY and the European Economic Community (EEC)* was signed, which defined the political principles of future relations between Yugoslavia and European regional integration through setting the framework for establishment of various economic relations. This was the first time to sign such a declaration with one socialist country. The Declaration was soon followed by two trade agreements with the EEC (in 1970 and 1973), which granted Yugoslavia the preferential status with reciprocal concessions. As of July 1, 1971, Yugoslavia became the beneficiary of the EC General Preferential Scheme, which, as a mean of trade policy, prescribed that through tariff concessions, the developed countries (preferential givers) encourage exports, industrialization process and increase in economic growth rate of the developing countries (preferential beneficiaries).

The next significant step in development of relations was the *Agreement on cooperation between SFRY and the EEC* signed in Belgrade on April 2 1980. The Agreement, based on preferential status of Yugoslavia, opened numerous opportunities for economic cooperation between the contracting parties and regulated commodity exchange, financial cooperation, industrial cooperation, agriculture, traffic, tourism, scientific and technical cooperation, assistance to the SFRY economic development, coupled with strengthening, deepening and diversification of economic, financial and commercial cooperation. The Agreement between SFRY and the EC was unlimited in terms of duration of its validity, being renewed every five years by signing and ratification of financial protocols.

Three pillars of the European Union

In the same year, SFRY entered into the Agreement with the European Steel and Coal Community (ECSC) and its state - members, which regulated the area of cooperation encompassed by the ECSC prerogatives and specific requirements of production and trade in coal and steel. This Agreement determines that the products of the SFRY origin, which were under competence of the ECSC, could be imported into the Community without quantitative limitations and other measures of the same effect, as well as without customs and other taxes. These provisions, though, did not apply to the imports of a number of products for which the so-called "ceilings" were set - established amount of annual imports of particular products into the EC, for which the importing country did not pay full customs duty, or did not pay customs at all, while customs had to be paid for the exported amount exceeding the ceiling. Mutual trade liberalization was being implemented through stages, whereby the Agreement set only the first five-year stage.

The concessions that SFRY enjoyed as the EEC preferential beneficiary were enlarged by entry into force of the 1980 Agreement on Cooperation, and especially by the Agreement between SFRY and the ECSC. Namely, after this Agreement was settled, the General Preferential Scheme was

extended on the products of ferrous industry, which, in accordance with the Agreement, were subjected to the "ceiling" system.

Based on a very good contractual relation, as well as on concessions given through both the *Agreement on cooperation* and the General Preferential Scheme, SFRY directed its commercial exchange and cooperation toward the EEC and its member-states during 1980s, which is best illustrated by the economic indicators for the best period of cooperation, which is 1987. The total volume of exchange between SFRY and the foreign countries in this year amounted to US$ 25 billion, while exchange with European countries made 75% of total exchange (US$ 18.5 billion). Out of this percentage, 43.8% (or US$ 10.8 billion) was a share of the trade with all Western European countries, while 36.4% (US$ 9.11 billion) is the volume of commerce with the European Community and its member - states.

New approach of the Union toward the Region

On the other hand, the EEC interest to develop cooperation with SFRY was proved, apart from contractual relation, by the level of financial and technical assistance set by the 1980 Agreement, which was to be established by the Protocols on financial cooperation. Three Protocols on the assistance given to SFRY by the EC were signed: the first one in 1980, the second one in 1982 (entered into force as late as in 1988) and the third one in 1991. The last Protocol on financial assistance never entered into force since the EEC member states rejected to ratify it because of armed conflict that began on the territory of Yugoslavia.

The Protocols on financial cooperation predicted the Community's participation in financing projects aimed at improvement of SFRY economic growth, especially those of mutual interest for both Yugoslavia and the Community. Resources stipulated by the protocols could be gained in the form of loans, and were directly approved by the European Investment Bank from its assets. The infrastructure projects in traffic, especially Trans-Yugoslav highway were considered the most favorable for financing.

One part of those funds was planned for financing the investment projects, and the Yugoslav banks could apply for loans in this field. The terms, time limit for payment of the loans, as well as interest rates were set in the agreement between the EIB and beneficiary of assets, in accordance with the financial and economic characteristics of the project in question, with simultaneous monitoring of prices of capital on the capital market. On the basis of financial cooperation regulated in such a way, at the moment of its disintegration (1992) Yugoslavia could apply for loans at the EIB assets up to the amount of ECU 550 million (as predicted by the Second Protocol on financial cooperation between SFRY and the EEC).

Association and membership in the EU - a priority for the new authorities

The 1980 Agreement on Cooperation was supplemented in 1987, when a new trade regime between Yugoslavia and the EEC was set, adjusted to the accession of Spain and Portugal to the Community. On December 17 1990, Yugoslavia signed the General agreement PHARE, by which mutual cooperation was extended to the filed of social and economic reform through implementation of financial and technical measures. On the same day, the Financial Memorandum was signed as well, which concretized the whole cooperation program: under the Memorandum Yugoslavia was to be given ECU 35 million, out of the total of ECU 500 million (predicted as the EU assistance to the Southeastern European countries for 1990 under the PHARE program) for implementation of programs for restructuring the Yugoslav banking system, economy and improvement of financial control services, as well as for fiscal reforms.

The Sanctions

Over the period of sanctions, significant changes occurred both on the side of the European communities and Yugoslavia. Namely, through enforcement of the 1993 Maastricht Agreement, a basis for new European architecture was established and further shaped in the Agreement on the European Union. This Agreement foresees that the European Union is based on three pillars: the first pillar is integration accomplished in three European communities, while the second and third pillars are related to the fields of interstate cooperation in joint foreign affairs, defense policy and judiciary and internal affairs. The Union enlarged its membership by three countries (Austria, Sweden and Finland) in 1995 and thus became "The Union of Fifteen", and at the same time set the associated relations with 10 countries of Southeastern Europe (Hungary, Poland, the Czech Republic, Slovakia, Slovenia, Bulgaria, Romania, Estonia, Latvia and Lithuania), settling with them the European Association Agreements.

Consultative working group formed at the Zagreb Summit

On the other side, SFRY disintegrated, while its former Republics became independent states which, separately, initiated establishment of relations with the European Union. Naturally, Slovenia went furtherets in development of these relations, and got status of the associated state (in June 1996 it settled the European Agreement and immediately applied for membership) with great chances to be in the first circle of future enlargement of the Union. Namely, full acceptance and implementation of the *acquis* is expected by the end of 2002, while according to the Commission's estimation, Slovenia has fully met the political conditions form the Copenhagen membership criteria already in November 2000.

Federal Republic of Yugoslavia, a federal union of Serbia and Montenegro was founded on April 4 1992, after proclamation of its Constitution. The first visit of the EU representatives to new Yugoslavia followed six months after the EU sanctions were revoked in June 1996. The then President of the EU Commission (Jacques Santer) and chairman of the Ministral Council (Lamberto Dini), on the occasion of their visit, declared that establishment of relations between the EU and Yugoslavia was necessary, as well as finding the ways to restore institutional cooperation between FRY and the Union. At the same time, the Government of Federal Republic of Yugoslavia initiated, as least declaratively, some steps aimed at getting closer to the Union through adopting the working program on harmonization of Yugoslav legal system with the EU legislation.

All reforms in compliance to the EU standards

Voluntary initiation of harmonization, as assessed in this Program, means significant political benefits for FRY and improvement of international position of our country, while "...if there are possibility or willingness that FRY get associated membership or become full member of the European Union, a significant part of necessary activities in legal adjustment will have be already completed". The predicted legal harmonization with the Union legislation proceeded in the field of commercial law, as listed in the White Book on preparation of the CEE associated countries for entry to the European Union adopted by the Commission in 1995.

Despite very ambitious Program for future harmonization and the group of involved experts (with appropriate political background) who were also dealing with the subject in practice, the only result of the Federal Government's work on this issue is translation of the White Book, which was published in 1997. The reasons for not insisting on further development of relations with the Union were primarily political - the Union was not observed as the objective that should be attained. Further development of events confirmed the thesis on existence of political obstacles for cooperation.

The subsequent period was marked by the lowest extent of relations between the Union and FRY; at the same time, however, it was the period of new approach of the Union to the region in which Yugoslavia is situated; this was defined through the EU regional approach and policy toward the Western Balkans, the region which includes four former Yugoslavia republics (Croatia, Bosnia and Herzegovina, Macedonia and FRY) and Albania. This approach was promoted throughout 1999 and its essence was primarily a need for stabilization of the region in question, in terms of security, which was taken as a prerequisite of every future cooperation of these countries with the Union.

As assistance to stabilization of the region in the form of general and long-term strategy of conflict prevention, upon the Union's initiative the Stability Pact for South Eastern Europe was set up on June 10 1999. The Pact insists on the so-called "European prospective", meaning offering the countries in the Western Balkan region a possibility of full association to the Union structure and its membership - as a transitional element toward full membership, the Union designed a new form of association agreement called the Agreements on Stabilization and Association for these countries.

Participation in the Stability Pact and eventual entrance into the Agreement on Stabilization and Association were open for FR Yugoslavia, but not as long as the former regime was in power. The Union demonstrated this attitude toward the Serbian regime on the occasion of formal signing of the Stability Pact on the conference in Sarajevo (June 30), where, apart from the Union and all countries in the region and other international organizations, financial institutions, regional initiatives and countries interested in prevention of conflicts in this region, the representatives of Montenegro, and former opposition parties from Serbia were present, as well, but without official representatives of FR Yugoslavia.

A special emphasis being on establishment of efficient administrative structure

Current Development of Relations

After the October changes in 2000, the latest phase of relations between the European Union and FRY began. This phase is marked by both declarative and practical expression of needs for closer contacts with the Union and establishment of partnership relations. Association and eventual membership of FRY in the European Union are defined as one of the most significant objectives of foreign policy of new authorities and are observed as a priority of Yugoslav foreign policy within the process of entrance into the international community and other international organizations.

Furthermore, the first appearance of the new Yugoslav President on an international gathering, and thus demonstration of priority significance that new authorities give to the European institutions, was participation of Yugoslav delegation at the Zagreb Summit (November 24 2000). The Zagreb Summit was marked by settling the first Agreement on Stabilization and Association between the European Union and Macedonia, and for Yugoslavia it stands as a beginning of the process of getting closer to the Union through decision on setting the consultative working group whose task is to analyze the situation in FRY and thus prepare settling the Agreement on Stabilization and Association between the Union and Yugoslavia.

Harmonization within FRY is necessary

The consultative working group EU / FRY is a technical working group consisted of the representatives of Yugoslavia, the EU Council President and the European Commission members. This working group has had two meetings so far (July 23 and November 6 2001, while the third one is scheduled for late February 2002), on which the reform process in Yugoslavia was discussed in the light of European standards in economy, politics and the fields such as fundamental principles of democracy, the rule of law, human and minorities' rights, market economy, regional cooperation and international obligations. The main objective of the Consultative working group is to monitor reforms in Yugoslavia and give information to the EU Commission, which are necessary for reports on beginning of negotiations on the Agreement on Stabilization and Association.

Reform and independence of the judiciary

These meetings resulted in joint recommendations classified as general, recommendations for general political and economic reforms, and sector recommendations, which are recommendations that the Yugoslav side should apply as to accelerate the process of getting closer to the EU. The general recommendations are very clear: all the reforms carried out in Yugoslavia must be in compliance with the EU standards. Evaluation of compatibility must be done already in an early stage of development of different policies and legislation; a special emphasis is put on implementation of the undertaken measures, meaning establishment of an efficient administrative structure. Many issues require harmonization within FRY, that is, adjustment of legal regulations in force in two republics; together with canceling of all existing obstacles for free trade within Yugoslavia and with neighboring countries.

Democratic control of armed forces is necessary

General political and economic reforms are the second segment of interest of the Working group, with special emphasis being on the issues of democracy, the rule of law, respect for human and minorities' rights, regional cooperation and respect of Yugoslavia's international obligations. The recommendations of the working group for reforms in these fields are related to modification of laws in the area of information, media and University, so as to conform them to the European convention on human rights and to achieve independence of these institutions.

Further activities are necessary on the reform and independence of judiciary system. Special attention in the reform in this area must be directed toward administrative capacities and efficiency of courts, but also on the question of appointment of judiciary officials. The recommendations require prompt canceling of death sentence and suspension of its execution, as well as democratic control of armed forces. As a way for successful implementation of these reforms, the Working group proposes adoption of internal and international legal regiulations, and also practical

Harmonization with the EU standards already in the early stage of political and legislative development

insurance of their implementation. The Working group underlines the need of durable and full cooperation with the International Criminal Tribunal for former Yugoslavia, as well as respect of all FRY international obligations.

The most concrete and most precise are the recommendations given for each sector of Yugoslav economy. On the Working group's opinion, every sector needs adoption of legislation as well as establishment of appropriate administrative practices and mechanisms of implementation; in most sectors, however, internal harmonization within Yugoslavia is required, due to different practices that exist in two Republics.

Together with internal, a harmonization with the Union standards is necessary already in the early stage of development of policies and legislation. As one of the most important fields addressed is a fiscal reform for which it is necessary to adopt the Budget Law and strengthen the set of taxation laws, while the value added tax (VAT) is recommended. Closely related are the reforms in the banking sector and trade policy, where the trade regime adjusted to the EC regime and other international standards and rules is demanded, which also requires new legislation. With new commercial legislation Yugoslavia has to remove the remained quantitative restrictions and quotas for exports and imports, but also to adjust technical and fitto-sanitary standards.

The Second Meeting of the Working Group

Recommendations of the second meeting of the Working group were even more concrete and related to, for the European union most interesting fields of Yugoslav economy, which must be restructured and their policies and legislation reconsidered. In the field of energy production, it is necessary to give priority to progressive market opening, better utilization of the existing infrastructure and increase in productivity of existing capacities, but also on improvement in tariff and pricing system.

Fiscal reform and reform of banking sector and trade policy

Full liberalization of the road transit traffic and guarantees for non-discriminatory status for carriers form the Union are priorities set in the sector of traffic, with the need for reconstruction of rail traffic, establishment of the appropriate technical and safety standards in air transport and full liberalization of international shipping services. The recommendations related to customs services refer to the need for full coordination of this service as to provide functioning of united economic space of Yugoslavia - in order to achieve this objective, it is necessary to set up a separate working group that would include the representatives of all custom services, which will also be in charge of creation of the customs law that must be adjusted to the EU standards.

So as to cooperation with the Union be coordinated between the Republic and Federal Ministries, on November 1 2001 the Federal Government decided on setting up the Federal Government's Office for Association to the European Union. At the same time, this Office should be interlocutor to the Union representatives in respect of the FRY participation in the process of stabilization and association of Yugoslavia. Its task is to adjust expert and administrative activities between the federal ministries and institutions, between Federal and Republic ministries, with simultaneous monitoring of the process of reforms. Accomplishment of these tasks leads toward the final objective - preparation of negotiations for reaching and implementation of the Agreement on Stabilization and Association between FRY and the European Union. Namely, when the Office, as a forerunner of the future Ministry for the European integration, starts its work officially (which has not been done so far), it will be a key negotiator in preparations for reaching of every form of agreement between Yugoslavia and the European Union.

The Federal Government's Office for Association to the EU

As assistance to the reforms, the Union, through the European Agency for Reconstruction, and in association with republic and federal ministries for international economic affairs, founded the Policy and Legal Advice Center (PLAC). The Center works on developmental strategies for Yugoslavia to get closer to the Union, but also monitors and registers the strategic mistakes in the process of reforms. At the same time, within the PLAC there is a legal team - a team of jurists (composed of domestic and foreign experts) who monitor the harmonization process, in particular creation of "harmonygrams" on the situation in legal system of Yugoslavia. The "harmonygram" is the first step toward harmonization, since it, in the form of table, contains a list of legal regulations in both legal systems (Yugoslav and Community's) with the objections on the level of adjustment, i.e. unadjustment of Yugoslav legal regulations to the EU legislation. Work on creation of "harmonygrams" on adjustment is to start in early 2002.

Finally, we should not forget the financial resources the Union, through different projects (the CORDIS, Energy for Democracy, Schools for Democracy, etc) has offered to the new Yugoslav authorities in support for accomplishment of reforms. Apart form these significant funds of one-time financial aid, the Union is the most important financier of the projects that were supported at the Donors Conference for FRY held on June 21 2001 which was actually organized by the EU, with the World Bank's support.

Center for political and legal advices

Accordingly, the answer to the question what the relations between FRY and the European Union are like, would be that FRY is at the beginning of establishment of relations with the EU and in preparation for negotiations on the Agreement on Stabilization and Association. The rules of the "game" named the EU membership are well known, issued by the Union, while the country that want to become a member must fully accept them. Therefore, according to the analysts, the development of future relations between Yugoslavia and the European Union will depend primarily on Yugoslavia's conduct. Namely, if Yugoslavia accepts radical reforms and monetary stabilization, changes in administrative system and shows openness for regional cooperation and integration and accepts the Working group's recommendations, has in prospect not only financial support for reforms, but also fast acceptance of its status as the candidate for membership. Its status as associated country would, however, have to last longer before accession to the Union, which is based on new strategies and policies of association and slightly changed stabilization process as compared to the other countries of the Western Balkans.

If, however, the reforms and recovery of Yugoslavia are slow, leaving the space for its political vulnerability and especially maintenance of criminal interest groups as significant in the society, the Union's response will be completely different. In that case, the EU will be continuously reconsidering the conditions for initiation of negotiations on association, and in best case would settle the agreement on free trade with Yugoslavia, and this only as late as in ten years, while the prospects for the Union membership would be out of political horizon for Yugoslavia.

Macroeconomic Subject

The Labor Law: in Search of Proper Measures between Flexibility and Security

1. Economic and social atmosphere in Serbia in time of adoption of the Law

A tension related to the Labor Law adopted in December 2001 has dwindled in the meantime and the public has forgot that issue a little. Now might be the right moment to point out the essence of complex dilemmas which the creators of the Law faced.

No law could be observed separately from the ambient it is adopted and applied in. Let us have a look at the most important characteristics of social ambient in the field of working relations and labor market that should be taken into consideration in adoption of the new law.

1. *Serbia is a very poor country*. As it is known, Yugoslavia got the most favorable IDA conditions of the World Bank on the basis of the estimated social product of less than US$1000 in 2000. These conditions, offering exceptional facilities in respect of developmental borrowing and possible writing-off the debt, on the other side also imply minimum degree of social protection in accordance to the assumed, very modest economic and fiscal possibilities of the country.

2. *Serbia is a country of high unemployment and inflexible labor market*. In 2001 the number of registered unemployment averaged 767,509 persons, leading to the unemployment rate of 26.8%. Structure of unemployment is dominated by the long-term unemployed (the biggest share is of those who have been searching employment from one to three years), young people between 15 and 34, those with completed high school education and those who have been searching their first employment. Structure of employment is dominated by the employed between 35 and 54 years of age, while according to the years of service, the biggest share goes to those of 16 - 20 and 26 - 30 years of service. This indicates very slow changes on the labor market in still dominating socially-owned and public sector: it is very hard to find the first employment, as hard as to change or lose employment.

3. *Serbia is a country in an early stage of privatization process.* The Labor Law was enacted while still the largest number of officially employed, about 80%, worked in public or socially-owned sector of economy. In 2001 the redundant labor in those sectors was estimated at 640,000 persons, or nearly 23% of the total active labor.

4. *Serbia has a tradition of high degree of protection of the rights of employed*. Labor relations worldwide, even in the most developed countries of market economy, differ a lot from country to country depending on local tradition, which largely originates from the XIX century. The Anglo-Saxon countries, for example, as a rule have decentralized systems of labor relations and more flexible labor market. Countries of Continental Europe as a rule have stronger labor unions and higher degree of workers' rights protection. Serbia, of course, has had communistic self-management tradition in last 60 years, or in almost two generations of employed. In all significant elements in the field of working relations, in socially-owned and public sector this tradition was not interrupted during 1990s, either. While making decision on abrupt break-up with tradition, it must be taken into account not only the resistance of those who are directly affected by the changes, but also the objective costs of discontinuity.

5. *Yugoslavia is (again) a member of the International Labor Market*. Yugoslavia is one of the ILO founder-states and signed a large number of its conventions. Hence, the Labor Law provisions should be in compliance with all those conventions accepted by our country between 1919 and 1992.

6. *Serbia is a European country*. Serbia wants as fast as possible membership in the European Union. The European Commission, amongst other things, evaluates the achieved progress of the countries - candidates in terms of common corpus (*aquis*) and the Union's recommendations in the field of employment and social issues.

Characteristics of the labor market and increasingly poor economy put the main emphasis on labor market flexibility

2. Flexibility or security: a global debate

Enactment of the Labor Law was preceded by a long debate in the Parliament, mainly on the issue whether the law and its particular provisions should favor flexibility of the labor market or security of the employed. Without questioning if the debate was caused by political rivalry or by genuine conceptual differences and whether such conflicts endanger reforms and public consensus, it should be noted that such debates are not underway only in our Parliament, but also at global level, among international institutions and experts who support diverse forms of labor market regulation. Here we will stop to illustrate in short the position of two very influential international agencies - the World Bank and International Labor Organization.

The essence of the World Bank's traditional attitude can be presented through a quotation from one of its official documents from early 1990s: - "labor market policies - minimum wages, security of employment, collective bargaining, are usually meant to increase welfare and decrease exploitation, but in reality, they increase labor costs in formal sector and reduce demand for labor...resulting in increasing labor supply in rural and urban informal sector, thus reducing labor income on the places where the poorest part of population is situated"

On the other hand, the often-repeated position of the ILO is that "the minimum wages have a significant role in protection of the low-income population. Structural changes require open industrial relations and a tripartite dialogue. In a long run, reduction of open industrial relations endangers the chances for economic development. The 1980s underlined the need for regulation of the labor market."

These two quotations bring about significantly different opinion in respect of benefits of institutional interventions on the labor market in developing countries. On one side are the economists who see regulated markets with government's control of wages, mandatory contributions to the

Tradition of high extent of workers' rights protection and European aspirations require minimum social security provided

The World Bank recommends flexible labor market

social security funds, security of employment and collective bargaining as the forces which create dysfunctions in one almost idyllic world market. The interventions observed as the first and biggest reason for dysfunctions permeate majority of the World Bank analysis on the labor market issue, although there has also been different views lately.

On the opposite side are the institutionally orientated economists who believe that social aspect of labor market creates large divergence between a real market and competitive ideal. These analysts underline potential benefits form interventions, claim that regulated markets are more adaptable than non-regulated ones, and approve of tripartite consulting and collective bargaining as the best way to determine the results of work. When efficiency is in conflict with social protection, welfare is given higher significance.

Diverse views on the impact of labor market intervention at social welfare bring about different opinions on the implication of policies. If, like the World Bank, you believe that intervention reduces growth and disturb adaptation, you will recommend the countries to eliminate them. If, like the ILO, you believe that interventions improve welfare, you will advise governments to encourage unionism and collective bargaining in compliance with the ILO conventions, to regulate the market results and to comply with the standards of work.

The World Bank concept of labor market is based on four statements about interventions: they allocate labor incorrectly, spend resources groundlessly since they encourage a search for rent, reduce adaptability to economic shocks, avert investments and thus reduce the growth rate.

The ILO support to collective bargaining is based on moral imperative. It is assumed that the ILO member- countries accept the position that free collective bargaining between the employer and autonomous pluralist labor unions is the best method for determining employment conditions. Collective bargaining is considered one of the basic human rights. Governments are expected to enact legal regulations that stimulate development of labor unions and free collective bargaining. But, the economic theory is also able to offer arguments for intervention.

The World Bank's attitude is primarily directed toward poor developing countries, where Serbia belongs at present, but it should be taken into account that due to its tradition and geographical position, Serbia *is not a typical representative of this group of countries*.

Objectively, none of these two shortly described positions is without weaknesses, and therefore the choice of criteria upon which the law should be designed is not easy at all. Impossibility to accept any of these two one-sided approaches leads to the idea of finding the midway solution, or even better, finding the way for these approaches to complement each other in the law text. It has been shown, at least at the level of declared objectives, that this was intention of the new law since its objectives, as they were presented in the Parliament, covers both the World Bank and ILO agendas:

The ILO statement is that labor market interventions are desirable

- Creating conditions for larger employment through setting institutional framework for different forms of working engagement of employable population.
- Providing the internationally recognized rights to the employed (right to limited working hours, vacations and leaves, protection at work, social insurance, etc.), which is achieved through persistent application of international conventions, especially the conventions and recommendations of the International Labor Organization.
- Reduction of unregistered labor through imposing much stricter sanctions on the employers who do not register their employees.
- Providing conditions for the dialogue between social partners, employers and employees through collective bargaining and encouraging unionism and other forms of workers' organizing.

Now, we will examine in details the balance between flexibility and safety of employment achieved through the final solutions of the new Labor Law, comparing it with the old republic 1996 Law on Employment and the Government's Draft for the Labor Law.

3. Changes in labor legislation under the new Labor Law

(Comparative outlook of the Law on Employment - The Official Gazette of the Republic of Serbia, No. 55/96 and 28/2001, The Labor Law -The Official Gazette of the Republic of Serbia, No 70/2001 and the original Draft of the new Law of the Government of the Republic of Serbia)

1. Application of the Law - The Law is applied on all the employed regardless of where they work, as well as on the employed in public services and state bodies.

2. Regulation of working relations - Working relations are governed by the Labor Law, other special laws, collective bargaining agreements and working regulations.

3. Initiation of employment:

3.1. Announcement of free working posts - The Labor Law does not provide for obligation of announcing free working posts in mass media, as it was the case with the old Law. The employer can, if finds it necessary, advertise vacancies in the media and apply at the Bureau of Labor Market.

The objectives declared in the Parliament covers both the World Bank's and the ILO agendas

3.2. Conditions for initiating employment

General conditions for initiating employment are:

- 15 years of age at least
- That the work does not endanger individual's health, moral and education.

(The same conditions were provided for under the old Law)

Special conditions for initiating employment:

1. Necessary educational qualifications and other special conditions for particular job.

2. Conditions for initiating employment of the under-aged persons: - For persons over 15 but under 18 in order to initiate employment, the following conditions must be satisfied:

- Parents' or guardians' approval;
- That such work does not endanger his/her health, moral and education;
- That such work is not prohibited by the law.

(This was not regulated under the old Law)

3. Another novelty related to conditions for initiating employment is a duty of the employee that, prior to signing the contract on permanent employment, inform the employer on his/her health or other circumstances that can significantly influence working performances for particular job, or can endanger health or life of other people; to the contrary, the employer can call off the employment contract

4. Employment contract - The act for initiating employment is still an employment contract. The novelty is:

- If employment contract does not set a time limit for which employment is initiated, it is considered that it is about permanent employment.
- If an employer does not make employment contract with the person who works for him/her, that person is to be considered permanently employed.
- The pattern for employment contract will not be proscribed in by-laws In future.

4.1. Contracts under changed circumstances - Under provisions of the new Law, an employer can offer the employee a contract under changed circumstances, which can not be less favorable than the terms set under the law and collective bargaining agreement. If the employee refuses to sign such a contract, the employer may call off the employment contract.

4.2. Beginning of work - An employee begins to work on the day set in the employment contract, otherwise it is considered that employment has not been initiated, unless he/she is prevented from starting working for justified reasons or unless the employer and employee agree differently. The Draft which was not accepted in the Parliament was that if a contract does not set time frame, the employee starts working the next day after the contract was signed; if the employer and employee subsequently agree on other term for starting working, this must be registered in a written agreement in which a new term for starting working is set.

4.3. Trial period - If a contract does not require initiation of employment through trial period, an employer cannot call an employee for trial work. Trial period may last 3 months at longest, the same as in the old Law on employment, while the Draft anticipated 6 months. During trial period, both the employer and employee can call off the employment contract with at least a 5-day termination notice, while the Draft suggested 6 days. For the employee who did not show the appropriate working abilities and skills, employment terminates with expiring of the date set in the employment contract. *Under the old Law, execution of tasks during trial period was monitored by the commission, while the new Law does not require that.*

4.4. Casual employment - When there is no constant need for a certain jobs, but only in particular time period, the employment is initiated on casual basis. The old Law precisely set the cases in which employment can be initiated, which is not the case with the new Law. Casual employment can be initiated for doing particular work only for a period of time that, with or without interruption, lasts three years at longest, while in the old Law it was limited to nine months for seasonal jobs. The new law provides for casual employment to become a permanent if the employee continues to work at least five days after expiring of term the employment is set upon, while the old Law did not define that term.

4.5. Part-time employment - Employment may be initiated as part-time, casually or permanently. A part-time employee is entitled to mandatory social insurance and all the rights of employment proportionally to the time spent at work. He/she can initiate employment at the other employer's and thus accomplish full working hours (*this area was not regulated by the old Law)*

4.6. Work out of the employer's premises - The novelty in the Law is that work out of the employer's premises is considered as an employment. Employee who carries out some job out of the employer's premises, make a contract on employment and is entitled to all the rights on the basis of employment. He/she can pursue these tasks alone or with family members (a spouse, children, parents and siblings of the employee, while the old Law considered only a spouse and children as family members)

4.7. Domestic servants - Domestic servants initiate employment and sign employment contract with the employer he/she works for, which was not regulated under the old Law.

4.8. Registering of employment contract -Contracts on employment concluded with domestic servants are to be registered at the competent local authorities, while registering procedure is prescribed by the Minister in charge of employment issue. This obligation did not exist in the old Law.

5. Working hours

5.1. Full-time working hours - Weekly working hours are 40 hours. The novelty is that working hours for persons under 18 can not be longer than 35 hours a week.

5.2. Reduced working hours -The Law preserved the obligation of reduced working hours for jobs that are being pursued under special working conditions; the novelty is that working hours may be reduced:

- On the basis of expert analysis carried out by competent organization on detrimental effects of working conditions on working performance and health of the employed.
- Working hours are reduced in proportion to the detrimental effects of working conditions, but not for more than 10 hours a week.

5.3. Overtime work - The new Law defines the cases in which an employee is obliged to work longer than full working hours:

- A force majeure
- Suddenly increased volume of work
- When an unplanned task must be finished within defined time-limit.

The old Law enlists these cases in more details.

An employee can work overtime 4 hours a day at longest, i.e. 240 hours in one calendar year, while the old Law limited this to 10 hours a week.

5.4. Program and rescheduling of working hours - Under the old Law, the employer makes decision on working hours schedule in all cases. Under the new Law, working week lasts five working days, while if work is performed at night, or nature of the work requires different treatment, the employer can schedule working hours differently. Under the new Law, the employer is obliged to inform the employee on the schedule and changes in working hours at least seven days before new schedule is applied, while the old Law did not set exact term. Working hours can be rescheduled by the employer if it is required for the sake of the nature of work, organization, better utilization of instruments of labor, more rational utilization of working hours and completion of a certain job within the set time-limit. Working hours can not exceed 60 hours a week. Working hours cannot be rescheduled for jobs under special conditions which are subjected to reduced working hours. Rescheduling of working hours has not been regulated by the law up to now.

The New law regulates part-time employment

5.5. Night work -An employee can work at night continuously for more than one week only upon his/her own approval. Prohibition of continuous night work was not proscribed under the old Law.

6. Vacations and leaves

6.1. Break during daily work -An employee who works full working hours is entitled to a break during daily work of at least 30 minutes. The new Law also prescribes that the employee who works for more than 4 and less then 6 hours a day is entitled to a break during daily work of at least 15 minutes.

6.2. Daily and weekly rest - No changes.

6.3. Vacation -An employee, who initiates employment for the first time or discontinues employment for longer than 5 working days, is entitled to vacation after six months of continuous work. Under the old Law, an employee was entitled to vacation after one month of work. To one twelfth of vacation (a proportional part) for one month of work in a calendar year:

- If the employee does not have 6 months of work in a calendar year in which the employment was initiated;
- If the employee has not acquired right on vacation in a calendar year due to discontinuity of employment of more than 5 days.

An employer is obliged to give the employee written decision on vacation 15 days prior to the date set as the beginning of vacation, which was not regulated by the law earlier.

6.4. Paid leave - Within one calendar year, an employee is entitled to paid leave of 5 days at most, in case of wedding, wife's labor, a severe illness or death of the family member, voluntary blood donation and in other cases defined in general act or employment contract. The old law provided for seven working days in enlisted cases, while for voluntary blood donation, an employee was entitled to 2 days of leave.

6.5. Unpaid leave - The cases are defined in general act or employment contract.

6.6. Unpaid leave (without any rights of employment)- The novelty is that a person elected for political or union function is entitled to unpaid leave (without any rights of employment). The Draft predicted that an employee, while serving jail sentence or correctual measure, is entitled to three months of unpaid leave (without any rights of employment) at longest, but the new Law regulates it the same as the old Law, i.e. 6 months at longest. In the case of unpaid leave without any rights of employment, the employee is entitled to return to work within 15 days after finishing his compulsory military service, finishing his/her work in a foreign country, expiring of public function, return from jail after serving jail sentence, i.e. security, correctional or protective measure. The Draft predicted a 5-day time limit for return to work after the term of unpaid leave (without any rights of employment) expires, while the old Law allowed 30 days.

7. Protection of employees -Changes refer to maternity leave and child-care leave.

7.1. Maternity leave - An employed woman is entitled to maternity leave and child-care leave that lasts 365 days. Maternity leave lasts up to three months after labor. The old Law regulated maternity leave lasting one year and provided for two-year leave for the third child. The Draft anticipated that, after expiration of three-month maternity leave, a father is also entitled to 365-day child-care leave upon the parents' agreement, but it was not accepted. In the case of death of a child, the leave lasts 3 months, as compared to 45 days under the old Law. When maternity leave and child-care leave finish, one of the parents is entitled not to work or to work part-time if child needs special care due to the high degree of psychological disturbance, except for the cases regulated under the health insurance regulations, while in the old Law only employed woman was entitled to this right.

7.2. Prohibition of dismissal - The new Law forbid employer to dismiss employee during pregnancy, maternity leave, child-care leave, except in case of violation of working obligation or if it was about casual employment.

8. Abuse of sick leave - *This area was not regulated by the old Law.* Under the new Law, within three days after temporary inability for work occurs, in respect of health care insurance regulations, an employee is obliged to submit the GP's note, which contains the estimation on when the employee will be able to return to work. The physician is obliged to issue the note which, *inter alia*, contains the estimated time of sick leave. An employer, if suspect in validity of reasons for sick leave may submit a request to the competent health care organ so as to examine working abilities of the employee, in accordance to the law. The Proposal predicted that if an employee abuses sick leave or is proved that he/she used it without justified reasons, his/her employment terminates.

If an employee abuse sick leave or is confirmed to use it unjustly - loses employment

9. Income - Gross wage consists of:

- Income achieved by the employee for performed work and time spent at work.
- Various compensations (e.g. sick leave)
- Increased salary and other forms of income based on employment, except for business trip expenses, commuting expenses, solidarity aid, jubilee award and retirement compensation.

Wage used to be composed of:

- Price of work, work effort and time spent at work;
- Additions to wage: working hours food allowance, vacation recourse, field work allowances, compensation on the basis of time spent at work;
- Various compensations (e.g. sick leave)

The new Law does not define the elements for determining wages such as: price of work and work effort; these elements are defined in general act and employment contract.

9.1. Increased salary -Employees are entitled to increased salaries as so far:

- For over-time work;
- For work on state or religious holidays;
- For night work;
- For work in shifts.

General act or employment contract can define other cases in which an employee is entitled to increased salary.

9.2. Minimum salary - Under the new law this is defined by hours of work, for the period of at least six months based on the following parameters:

- Costs of living;
- Existential and social needs of the employee and family members;
- Unemployment rate and changes in unemployment at the labor market;
- General level of economic development of the Republic.

The level of minimum salary is set by representative labor unions, employers at the Republic level and the Government of the Republic of Serbia. If the agreement is not achieved, the decision is made by the Government. Minimum salary is defined by hours of work, for the period of at least six months and is published in *the Official Gazette of the Republic of Serbia*

The Draft provided for the minimum salary to be agreed with the employee and most often for the simplest work or if employer has no funds to pay the salary agreed in collective bargaining agreement. Under the old law, the decision on minimum salary is made by administrative board according to reasons for which it is paid. Minimum salary was paid to all employees.

9.4. Compensations - There are no changes in this part of the Law.

9.5. Other forms of income - Other forms of income that are not part of the salary and that could be paid by the employer are the following: retirement compensation, solidarity aid, jubilee award and funeral costs in case of death of an employee or a family member up to the amount defined in the general act or employment contract. Under the old law, an employer was obliged to provide these incomes.

Minimum wages are set according to the hours of work for the period of at least six months and on the basis of the following parameters: existential and social needs of the employed and family members, unemployment rate, changes in employment at the labor market, general level of economic development in the Republic.

10. Prohibition of competition - This area has not been regulated earlier. Employment contract can define jobs that the employee cannot perform on his/her behalf, as well as on behalf of other person or legal entity, without approval of the employer he/she works for. Prohibition of competition can be set only if there are conditions for employee to acquire new and important technological skills and knowledge, wide circle of business partners or knowledge of important business information and secrets during his/her work for that employer. General act or employment contract defines territorial validity of prohibition of competition, depending on the type of work the prohibition is related to. If the employee violates the prohibition of competition, the employer is entitled to compensation of damages. Through employment contract, employer and employee can agree prohibition of competition and compensation of damages after termination of employment within the period of time that could be no longer than two years after employment is terminated. Contractual prohibition of competition will not be applied if an employer dismisses employee with no justified reasons set under the law.

11. Termination of employment

11.1 Termination by employee - An employee is entitled to terminate employment contract to the employer. Termination notice is handed over to the employer in a written form at least 15 days prior to date the employee set as the date of termination of employment. In case of termination of employment due to violation of obligations by the employer set under the law, general act or employment contract, the employee is entitled to all rights based on employment, as in the case of unlawful termination of employment. These rights and obligations were not defined by the old Law. An employee terminates his/her employment by his/her own will if: 1. She/he declares a wish to terminate employment in a written form; 2. She/he makes the agreement on termination of employment with the employer.

11.2. Termination by the employer - This part of the Law suffered most changes. ***Under the new Law***: An employer can terminate employment contract to the employee if there is a justified reason related to the employee's working ability, his/her behavior and employer's needs, which is:

1. If it is confirmed that the employee does not achieve working results.
2. If it is confirmed that the employee does not have necessary knowledge and skills for performing his/her job.
3. If an employee violates working obligation by his/her own fault as set under the employment contract.
4. If an employee does not obey working discipline, i.e. if his/her conduct caused impossibility for him/her to continue working at the employer's
5. If an employee commits a criminal act at work or related to work.
6. If an employee does not return to work at the employer's within 15 days after the date of expiration of unpaid leave or unpaid leave (without any rights of employment) under this Law.
7. If an employee abuses sick leave.
8. If, due to technological, economic or organizational changes, there is no longer a need for particular work.

An employer is obliged to, prior to termination of employment contract, warn the employee of the reasons for termination of employment contract.

Termination of employment contract if, due to technological, economic or organizational changes there is no longer a need for particular work, can be given to the employee only if an employer provides him/her with another work that he/she can perform or to enable him/her for work on other tasks. This refers to the employer who employs less than 50 permanent employees. The employer cannot, in the case of termination of employment contract if, due to technological, economic or organizational changes, there is no longer a need for particular work, employ another person on the same post within three months after termination of employment. If prior to expiration of this term there emerges a need for performing the same work, the employee whose employment terminated has priority in signing employment contract.

The following is not considered the lawful reason for termination of employment contract:

1. Temporary inability for work due to illness, accident at work or occupational disease;
2. Maternity leave, child-care leave and special child-care leave;
3. Compulsory military service;
4. Membership in political organization or labor union, language, gender, national belonging, social background, religious affiliation, political or other affiliation or any other personal characteristic;

The employer who employs more than 50 permanently employed and plans to terminate employment for more then 10% of total number of employed within one calendar year due to technological, economic or organizational changes, is obliged to prepare a program for resolving the problem of redundancies.

5. If an employee addresses a labor union or a body in charge of protection of rights in the field of employment pursuant to the law, general act or employment contract.

Under the old law: An employee can be terminated by the employer:

1. If he/she unjustly leaves work for more than five days in a row, i.e. seven working days with interruptions within three months;
2. If term on which casual employment is agreed expires;
3. If he/she does not show the appropriate results during trial period;
4. If a trainee does not pass the official exam;
5. If an employee refuses to work at the post he/she is assigned to;
6. If there is no post to which employee can be assigned;
7. If an employee is provided with full time employment (rescheduling on another working post in compliance to his/her qualification in form of full-time or part-time employment at the same employer's; new full-time or part-time permanent employment for another employer; on the basis of agreement on taking over concluded by competitive authorities; professional retraining or additional training for work on another post with full or part-time engagement for the same or different employer); if an employee is paid one-time severance compensation (to the amount of at least 24 or at most 36 salaries which the employee would earn in accordance with collective bargaining agreement for the month preceding the month in which employment terminated);
8. If an employee is paid severance compensation defined in collective bargaining agreement;
9. If an employee does not return to work in 30 days, or if a person appointed to the state or other public function does not return to work in 30 days after expiring the time period during which he/she was entitled to salary under special regulations;
10. If, in a year after employment was initiated, it turns out that employment was initiated opposite to the provisions of the Law;
11. If, when initiating employment, the employee suppressed or gave untrue data significant for performance of tasks for which the employment was initiated;
12. If an employee is pronounced a measure of termination of employment;
13. If an employee performs tasks without agreement of the employer.

11.3. **Ability of employee / Termination notice** - As opposed to the previous legislative solutions which provided for the employer to be obliged to form a special commission that is to determine in defined time-frame whether an employee has abilities, i.e. achieves working results, the employer can terminate the employee within 3 months after finding out of the facts that are the basis for termination of employment, or within 6 months after the day in which the fact that is a basis for termination of employment occurred. The employer is obliged to, before terminating the employee, ask for an opinion from the employee's trade union Trade union is obliged to submit its opinion within 5 days. The Draft prescribed that if the employer, on the basis of accomplished tasks within certain period of time by the employee, conclude that the employee does not realize working results or does not have abilities, can terminate employment contract. This means that the employer does not have to run special disciplinary procedure for determining inability of the employee.

12. Termination of employment through payment of severance compensation - Under the new Law, an employee whose employment contract is canceled due to non-accomplishing adequate results or not having necessary knowledge and skills, is entitled to severance compensation in the following way:

1. In case of two-year continuous work for employer - to the amount of one salary;
2. In case of two to ten-year continuous work for employer - to the amount of one salary and a half;
3. In case of ten to twenty-year continuous employment for the same employer - to the amount of two salaries;
4. In case of continuous work of over 20 years for the same employer - to the amount of two and a half salaries.

(Salary that the employee would earn in accordance to the Law, general act or employment contract for the month prior to the one in which employment terminates).

The old Law provided for severance compensation of 24 to 36 salaries in case of termination of employment.

13. Redundant labor - The ways for determining redundant labor and employer's obligations in that case are defined on the new bases: the Law does not provide for obligation of determining redundancies upon criteria at same working positions, payment of severance compensation in the amount of 24 to 36 salaries and creation of program of technological, economic and organizational regulations.

Under the new Law: An employer who employs more than 50 permanent employees, in case of planning to terminate more than 10% of the total number of employed within the same calendar year due to technological, economic or organizational changes, is obliged to make a program for resolving the problem of redundancies. The program contains data on redundant employees, tasks they perform, qualification structure, age, measures for creation of new employment opportunities and time frame for termination of employment, which is adopted in cooperation with the organization in charge of employment issues. An employer is obliged to take into consideration the opinion and proposals of the trade union and to inform it about his/her position in no longer than three months. The program for resolving the problem of redundancies contains the proposed measures, in particular: replacement on other posts, employment at the other employer's, re-training or advanced training, reduced working hours and other rights in accordance to the Law, general act or employment contract. In case of termination of employment contract (if due to technological, economic or organizational changes, there is no longer a need for pursuing particular job), the employer is obliged to pay severance compensation up to the amount defined by general act or employment contract, which is regulated as in the old Law.

If an employer does not have funds of his/her own or lacks the sources for responding to the rights of employees, the funds provided for that purpose under the Law or other act will be

used. The employee, who is terminated the employment contract after payment of severance compensation due to the lack of need for his/her work, is entitled to unemployment allowances and old-age pension and disability insurance in accordance to the employment regulations, which is the same as in the old Law.

Under the old Law: All the employers regardless of the number of employees were obliged to: make a program of technological, economic or organizational changes; to respect particular criteria in case of determining the redundant labor: i.e. working results, health and social circumstances of an employee or his/her family members, etc; to provide one of the rights (another working post, re-training, severance compensation); to protect vulnerable categories of employees defined under particular criteria (the disabled, participants in military operations, etc).

14. Suspension from work -An employee may be temporarily suspended from work if there are criminal charges raised against him/her for the criminal act committed at work or in relation to work, or if he/she violates working obligation endangering the propriety of higher value. The old Law formulated the suspension from work in case of charges raised against the employee for violation of working obligation which is subjected to measure of suspension or in case of criminal charges raised against employee for criminal act committed at work or in relation to work. The suspension can last 3 months at longest, and the employer is obliged to return the employee to work within that period or to terminate employment contract, if there are justified reasons for it (if the employee violates the working obligation by his/her own fault, as defined in employment contract; if the employee does not obey working discipline, i.e. if he/she conducts in the way that does not allow him/her to continue working for that employer any longer; if the employee commits a criminal act at work or in relation to work).

15. Decision-making on rights and obligations - The decisions on rights, obligations and responsibilities on the basis of employment are made by:

1. In legal entity - the director or the employee in charge;

2. As for the employer with no status of legal entity - the employer or the competent employee in charge.

15.1. Protection of individual rights / arbitrage - Under the new Law, general act or employment contract, there can be predicted a procedure of mutually agreed sorting out of the moot issues between employer and employee. The employer and employee can present the moot issues to arbitrage.

An arbitrage has odd number of members and consists of equal number of representatives of both disputed parties and one arbiter brought into the arbitrage in agreement of both sides, who is an expert in the field related to the issue of conflict. Composition of arbitrage and its procedure are regulated by the general act. Decision of the arbitrage is final and binding for both employer and employee.

15.2. Collective bargaining agreements - General collective bargaining agreement and special collective bargaining agreement are binding only for the employers who are members of the employers' association that signed the collective bargaining agreement or who become member of the association later. The former Law did not contain these provisions and special collective bargaining agreement was binding for all employers.

The Minister in charge for labor issues can, if there are justified economic and social interests, to extend the application of special collective bargaining agreements to the employers who are not members of association. Prior to making decision on extended application, the Minister is obliged to ask for an opinion the signer of the collective bargaining agreement.

Conclusion

This short overview of the legal solution leads toward conclusion that the legislator favored flexibility on the labor market over security, treating the proposition 1-3 of the introductory chapter more as priorities, and propositions 4-6 more as limitations.

The adopted Law is expected to speed up transformation of our labor market to the structure with similar shape and characteristics as in the developed countries. New regulations will boost flexibility of wages, mobility of labor and development of market relations. In long-term sense, it would result in reduction of high unemployment in Serbia. In ideal scenario, flexible and efficient labor market would enhance profitability of investments and thus not only encourage domestic investors, but also become attractive for foreign investors. In labor market development the first and most important phase is discharging of workers who stand as redundancies inherited from the past. The Law provides conditions and further competences necessary for implementation of the process. Procedures for initiation and termination of employment are simplified, while the new more flexible forms of employment such as part-time work and casual employment are introduced.

The legislator favorites flexibility at the labor market over security

However, the most important elements for protection of individual and collective rights of workers are preserved. The key instrument that regulates the employment is employment contract, while collective bargaining agreement is not binding unless the employer signs it, although collective bargaining is mandatory. The issue of collective bargaining is solved in similar fashion in most European countries.

In comparative prospective, the Labor Law provides approximately medium level of protection. Hence, according to the indicator of maximum amount of severance compensation under the law and termination note (in months), with the indicator being five, Serbia offers wider protection of the employees than the USA, Canada, Australia, New Zealand, France and Netherlands, but lower than, for example, Sweden, Austria, Spain, Italy and Portugal. If the proposed social program were adopted, which increases the minimum severance compensation to ten months, it would additionally increase effective protection of employment.

It might be said that the Labor Law represents a step toward harmonization of labor legislation with the European standards. Usual request of the European Commission to the countries applying for membership is harmonization of their legislation in the fields of labor, protection at work and gender equal rights. With the expected completion of labor and social legislation this year, Serbia could become country out of the first cycle of admission, which advanced further in getting closer to the European criteria in this field.

Macroeconomic Review

Lower Taxes, Increased Turnover, Improved Standards of Living

Prices

Inflation in Serbia in 2002 started with an average monthly retail prices growth rate of 0.6%. A slower retail prices growth rate in January was due to: **(1)** Completion of the liberalization process of almost all the prices except for the price of electric power and public utilities; **(2)** Well supplied markets; **(3)** Tax cut on some of the personal consumption products.

Prices of electric power and public utilities are to be gradually liberalized throughout the year. It is expected that the dynamics and extent of liberalization in these prices in 2002 will depend on dynamics of the key macroeconomic indicators which will provide sustainability of projected real growth of gross domestic product and standards of living.

The highest increase in retail prices in January was registered in the group of agricultural products and services. The price of agricultural products in January increased by 2.8%, and the price of services grew by 2.3% relative to December.

In the course of the last year prices of agricultural products grew faster than prices of industrial products. In the group of industrial products, the highest increase was registered in prices of agricultural non-food products and tobacco.

The pace of costs of living was slower than the retail prices. As compared to December 2001, costs of living are lower by 0.5%. A significant decrease by 2.8% relative to December within the costs of living was registered in the group of products comprising the basic nutrition. On the other hand, in January 2002 prices of tobacco, beverage and housing recorded a growth. In the cost-of-living index, a dynamics of faster growth in price of services than price of goods was continued

While measuring core inflation indicators in 2002 we will allow for possible shocks at the side of supply, which are mainly caused by increase of expenses in prices of goods and services, and we will monitor only the impacts of administrative decisions on changes in prices.

The average monthly retail prices growth rate of 0.6%, negative industrial producer prices growth rate of -0.1% and cost-of-living index of -0.5% in January 2002 are the indicators which point to strengthening of macroeconomic stability. This is very significant since it implies that favorable conditions for implementation of projected microeconomic reforms in 2002 are created.

Wages

An average gross wage in January in Serbia amounted to YuD 10,719 and was nominally lower by 11.73% compared to December.

The average nominal net wage in Serbia in January was 7,435 dinars. This is by 12.07% less than in December 2002. On the other hand, as we previously men-

tioned, cost-of-living index in January also dropped by 0.5% relative to December. Hence, the average real wage decreased by 11.37% relative to the previous month.

It might be said that fall in real wages in January stands as a regular seasonal result and is closely related to the level of economic activities, which is usually lower in our country in January as compared to the last month of the previous year. However, in-dept analyses show that decrease in the average real wage does not imply that standards of living of the citizens dropped. Namely, growth in comparable average real net wage in Serbia in January 2002 amounted to 41.5% compared to June 2001, while the average real wage in January was up by 8.7% relative to the January - June 2001 average.

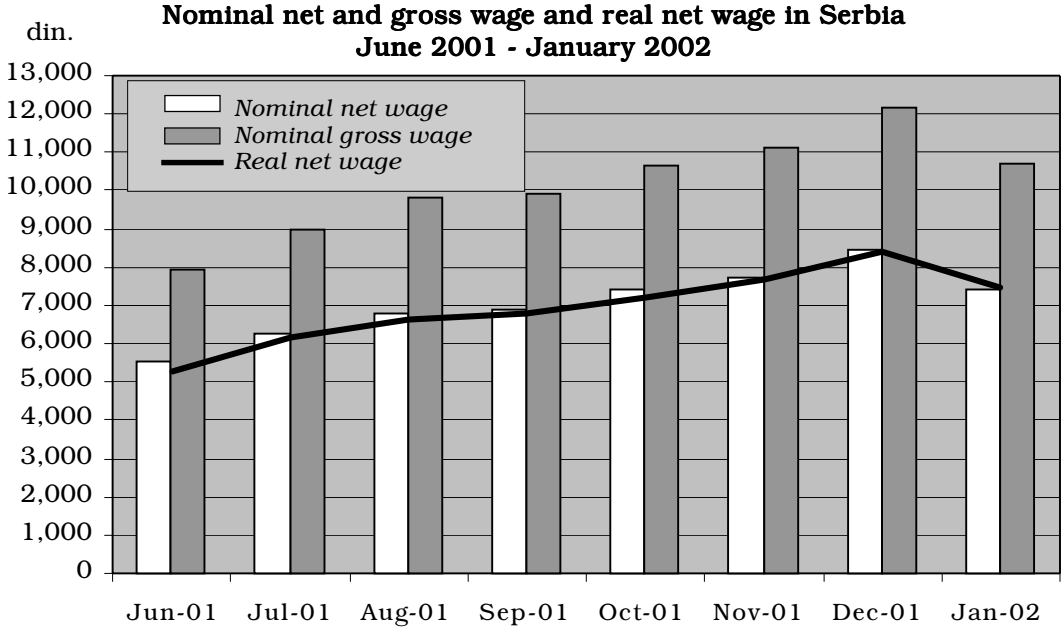
Table 1: The indicators of the current real standards of living of the citizens

	Average nominal net wage in YuD	Value of the consumers basket, in YuD	Ratio between the consumers basket and net wage	Chained index of the consumers basket's value	Chained index of costs of living
06/01	5,530	11,451.64	2.1		104.7
07/01	6,268	11,256.02	1.8	98.29	101.8
08/01	6,800	11,623.47	1.7	103.26	102.9
09/01	6,900	11,963.38	1.7	102.92	101.8
10/01	7,408	11,864.72	1.6	99.18	102.9
11/01	7,729	12,067.58	1.6	101.71	100.7
12/01	8,456	11,335.37	1.3	93.93	100.3
01/02	7,435	10,943.60	1.5	96.54	99.5

Accordingly, when it is about January 2002, it is important to underline that the population's standards of living achieved in this month can not be evaluated only on the basis of changes in average real wage relative to the previous month, primarily because at the end of last year the Serbian Government pursued numerous measures directed toward reducing the prices of some personal consumption products, especially food products. This led to the trend of reduction in the value of total consumers basket of food and beverage and ratio between the value of consumer basket and average net wage. In December 2001 this ratio was 1.3, while in January it increased to only 1.5.

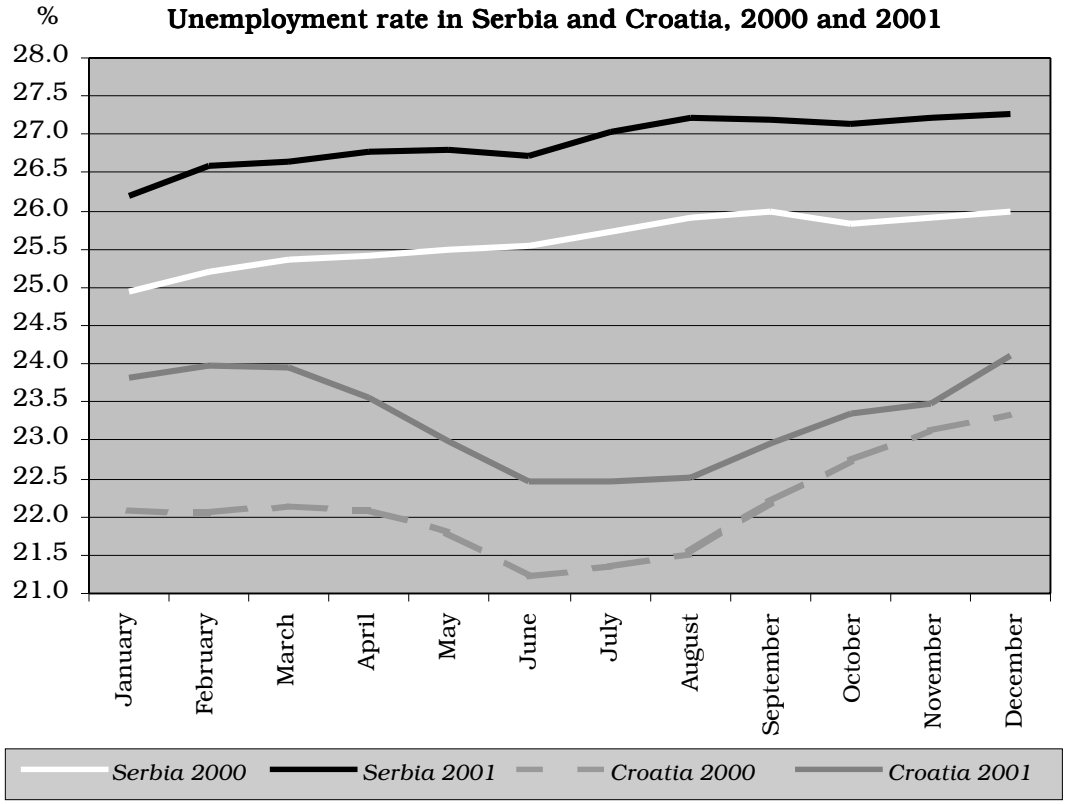
However, the total value of the consumer's basket of food and beverage in December 2001 relative to November was down by 6.07%, while in January 2002 compared to December it dropped by further 3.46%. This shows that the share of basic nutrition costs in the family budget significantly decreased in January 2002, which created a real space for satisfying other needs of households with the achieved level of wages. Namely, the calculations point that the drop in real wages in January 2002 was significantly compensated by reduced prices of personal consumption products, implying that the real drop in standards of living of those citizens who live only on wages were much less than it could be drawn only on the basis of achieved level of the average real wage.

Nominal net and gross wage and real net wage in Serbia
June 2001 - January 2002



Labor Market

As compared to the previous years, the labor market in Serbia in 2001 was marked by several positive trends: **(1)** Decrease in number of total employment was stopped; **(2)** Labor restructuring is achieved in the form of reduced number of employed in former socially-owned sector and growth of employment in small enterprises and private shops; **(3)** A dynamic demand for labor was expressed; **(4)** Dynamic employment of workers was underway; **(5)** Number of beneficiaries of



unemployment allowances was increased, but the percentage share of this number in total unemployment remained relatively small.

The average unemployment in Serbia without Kosovo and Metohija in 2001 was 768,595 persons per month. In December 2001, number of unemployed reached the figure of 780,632 persons and remained unchanged compared to November. The unemployment rate relative to registered labor amounted to 27.3% at the end of 2001.

The average number of vacancies in 2001 rose by 20.1% relative to 2000, while the number of persons who initiated employment in 2001 was up by 13% compared to the previous year.

Number of beneficiaries of unemployment allowances in December 2001 reached the figure of 53,804 persons, being by 17.2% up year-on-year. It was up by 9% relative to the 2000 average, whereby there was a significant increase of 24% in number of beneficiaries of unemployment allowances who are out of work as redundancies, while the number of beneficiaries out of work on the basis of bankruptcy was down by 13%.

Comparative unemployment rate in Croatia in December 2001 was 24.1% and in Serbia 27.3%. This indicates that Serbia does not have much higher number of unemployed relative to registered labor as compared to Croatia which is in advanced stage of transition.

Industrial production

Industrial production in FR Yugoslavia in January dropped by 17% relative to the preceding month. In Serbia it was down by 15.8% (in Central Serbia by 16.3% and in Vojvodina by 14.7%) and in Montenegro by as much as 33.8%. Such a severe drop in industrial production does not indicate that economic situation is seriously disturbed, but it resulted from the fact that January is unfavorable seasonal month. Seasonal fall in January is traditionally present due to large number of holidays, while in January 2002 this fall is even deeper owing to the shortage of electricity. The Government of the Republic of Serbia even recommended the enterprises not to work in the period between the New Year and Christmas holidays in order to provide enough electricity for personal consumption and to avoid restrictions. Montenegro had even more serious problems with electricity than Serbia and this probably caused much sharper drop in industrial production in this republic.

If we disregard seasonal effect, fall in industrial production in FR Yugoslavia was 3.3%, which is more important data, and thus the total production decrease is not that disturbing. After four-month downward trend, de-seasonal index in November rose by 3.2% month-to-month, which was a good indicator, but the following month registered a drop by 0.3%. De-seasonal results of production in January are relatively good considering that some socially-owned giant enterprises significantly reduced production (RTB Bor, Zastava) because they indicate that some other enterprises increased production and partially annulled the fall.

The mentioned 17% fall in output at the level of FRY resulted from all three sections since none of them achieved growth. According to the *Classification of Economic Activities*, mining and quarrying registered the smallest drop (7.3%) since

mining of coal rose by 4.2%. The section of electricity, gas and water supply registered a drop of 10.4% after four-month upward trend. Manufacturing decreased by even 19.9% month-on-month. In that section, the largest drop was registered in: manufacture of wood and wood products (38.9%), manufacture of electrical and optical equipment (33.4%) and manufacture of electrical machinery and apparatus (33.3%). Of 17 branches in all three sections, only the two registered growth: manufacture of tobacco products (18.3%) and mining of coal (4.2%, continuing the trend started in September).

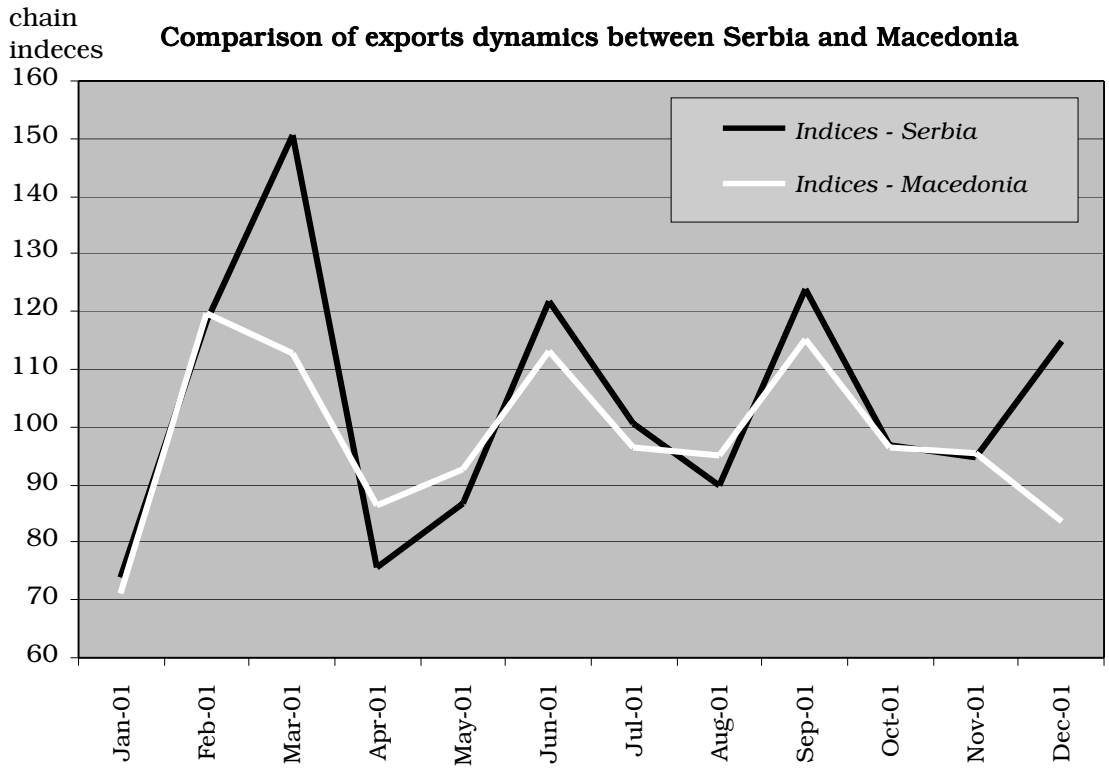
Foreign trade

The preliminary data on the realized value of exchange of goods between Serbia and foreign countries indicate that the value of commodity exports in 2001 was up by 10.5% relative to 2000, while commodity imports increased by 30.3%. Foreign trade deficit in Serbia in 2001 was up by 43% reaching the amount of US$2.5bn.

The encouraging fact, though, is that the value of both exports and imports were gradually increased throughout the year, whereas the dynamics of import growth was more noticeable. Thus, the value of commodity exports in Serbia in December 2001 was up by 25.1% year-on-year, while commodity imports increased by 31.6%.

A significant growth in commodity exports indicates intensive recovery of exporting industries. Completing of the restructuring process in the enterprises with export programs which is underway and development of new export-oriented industries, coupled with services, should enable export-oriented programs to become the pillars of GDP and economic growth. A 10.4% increase in export value manufacturing in 2001, together with a 20.6% year-on-year growth in December may serve as a possible indicator that the activities are moving in that direction.

Comparison of exports dynamics between Serbia and Macedonia



A structure of foreign exchange, observed on the basis of Standard trade classification of products, shows some interesting trends. The 2000 draught resulted in significant decrease in exports and increase in imports of some of our traditionally exporting products, primarily wheat and fodder. The total export of food and live animals in 2001 was up by 7%, primarily owing to the increase in exports of sugar and honey products, fruit and vegetables.

Imports of oil, petroleum and petroleum products, as the most significant items of the Serbian imports, practically stagnate as compared to 2000, but the export of this group of products, although much smaller in terms of its value, achieved a growth of over US$30m.. The encouraging trend may be the 25% growth in exports of machinery and transport vehicles, whereby within this group only the imports of road vehicles registered a fall (of over 25%) relative to 2000. This may mean that domestic enterprises have finally started to invest in replacement of worn-out equipment. The highest increase in both imports and exports within this group of products is registered in transport equipment, which resulted from inflow of donations directed toward development of road network in Serbia.

Regional analysis of the import structure indicates that the Serbian foreign exchange is dominated by the European Union and transition countries, making to-

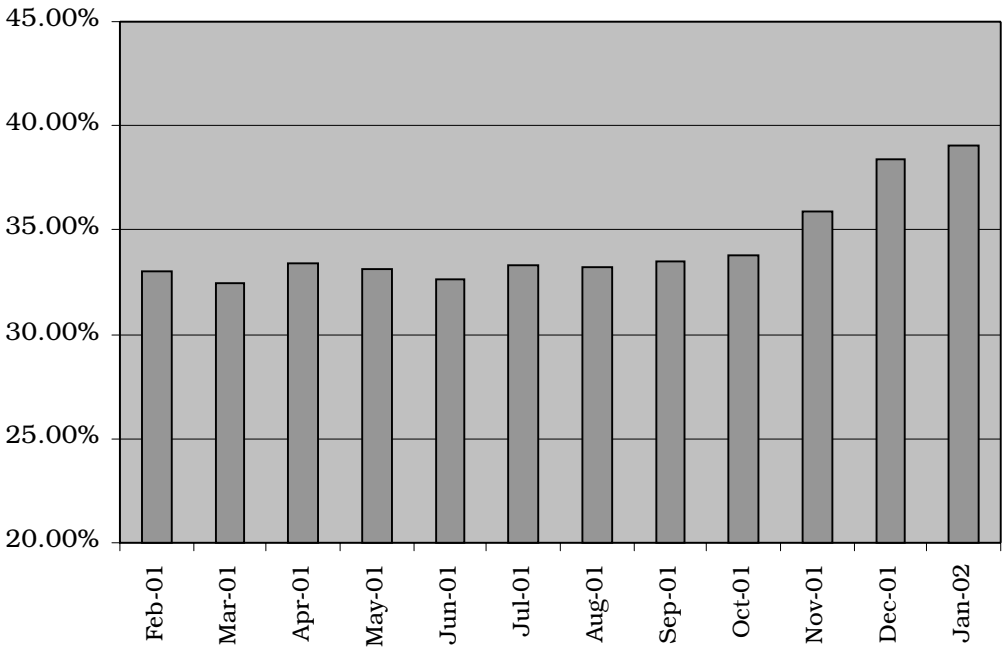
gether about 90% of both export and import values. But dynamics of exchange is not the same for these two groups of countries: while increase of the value of commodity exchange, exports and imports to and from the EU averages about 25%, when it is about the transition countries, a slight increase in exports is registered together with noticeable increase in imports. Such a trend was present in other transition countries, too, where the exports primarily tended to approach demands of the EU market.

The 2002 projections give the foreign trade sector more favorable prospects as compared to the last year. Commodity exports growth rate is projected to lower, as well as more dynamic export growth, which will not eliminate further growth of foreign trade deficit, but will affect deceleration of its growth rate.

Monetary and fiscal policy

The money supply at the end of January amounted to YuD 66.78 billion (an increase of only YuD 491.1 million or 0.74% relative to the previous month), which is significantly lower then the December increase of money supply of 16.36%. At the basis of net foreign currency transactions, an amount of YuD 862.5 million of primary money was issued. The structure of money supply also changed toward increase of cash money supply by YuD 654.4 million (2.57%) and simultaneous decrease of sight deposits by YuD 163.3 million (a decrease of 0.4%). Cash money supply growth probably resulted from remonetization of the shadow economy sector and the population who usually kept their liquidity reserves in foreign exchange effective. These sectors, the largest net foreign currency buyers, keep their liquidity stocks in cash.

Cash money share in M1 over last year



The average monthly interest rate on short-term securities at the Belgrade Stock Exchange continues to drop. In January it was 3.71%, in December 3.81%, and in November its value was 4.11%. In spite of continuous moderate decrease over the last fifteen months, the interest rate is still at very high level, and through high costs which it places to enterprises, makes an inflator pressure. However, the conditions are favorable for the interest rate to decrease significantly in the upcoming period. This will be influenced by decrease in inflation in last three months (especially in January), expected tax cut by one-third on financial transactions in March, as well as by decrease in the discount rate which is to be 1% as of February 2.

Collection of gross public revenues in January was down by 15.02% relative to the previous month. The volume of revenues of the budget and other users was reduced by 16.6% and the revenues of social insurance organizations by 12.15%. As for the budget revenues, the most decrease was registered at the personal income tax (in January it was collected YuD 4.53 billion, relative to YuD5.79 billion in December), and customs revenues (YuD 994 million in January compared to YuD 2.08 billion in December). The sales tax revenues, in spite of being cut for a number of foodstuffs, do not register such a sharp drop in collection (YuD 5.52 billion in January 2002 compared to YuD 5.71billion in December), probably due to the increased volume of turnover. Everything said so far implies the existence of the economies of scale in Serbia as one of the important characteristics of market economy.

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A Roundtable Organized by the G17 Institute

The Judicature and Economic Reforms

On February 22 2002, the G17 Institute organized a meeting of experts on the subject ***The judicature and economic reforms***. Welcoming the participants, **Milko Stimac**, the G17 Institute Executive Director opened the meeting. In her opening speech, **Aleksandra Jovanovic**, director of the G17 Institute Institutial Reforms Department, stressed out that this was the second gathering within a wider project of the G17 Institute - *Monitoring of institutional and legal reforms*, financially supported by the GTZ, a German organization for technical cooperation.

The issue of mutual connection between the judicature and economic reforms, as Aleksandra Jovanovic underlined, was raised on the first meeting of experts R*eforms in FRY - Actual problems and questions*, where the problems in building of independent judicature were emphasized as one of the obstacles for establishing an efficient market economy. As the experience shows, in all transition countries it was necessary to set credible institutions through introduction of new or adjustment of old institutions, including changes in judiciary system. The relations between judicature and economic structures are complex and especially sensitive in the transition period, due to privatization and restructuring of banks and enterprises, as well as to the need for courts to apply new legal regulations which follow the principle of economic efficiency. Also, in a well-known story of our participation in the process of association to the EU and need for our country to respond to obligations that stem from the EU legislation, it is necessary that the judiciary is qualified for application and implementation of new market-oriented regulations.

At the end of her opening speech, Aleksandra Jovanovic concluded that the choice of subject for this meeting resulted from significance of the judiciary and its reform for accomplishment of economic reforms and a wish for this meeting to be an additional step in monitoring of institutional changes in our country and in highlighting the obstacles that could slow them down.

AFFIRMATION OF THE RULE OF LAW AND MARKET AND SOCIAL REFORM

Vladan Batic, the Minister of Justice and local autonomy in the Government of the Republic of Serbia stressed that for the issue of judiciary and economic reforms, there are several priorities: affirmation of the rule of law, market reforms and social reforms. Economic and social reforms largely depend on realization of the first principle. However, there is a question of realization of these objectives.

Considering that the judiciary system is one pillar of power, as Minister Batic emphasized, it is necessary to have new legislature, personnel renewal, raise of material, organizational and technical standards in the judiciary, and education of judiciary officials.

As for the legal regulations, Minister Batic continued, in the situation when we have two Constitutions which are anachronous and in mutual collision, and many similar republic and federal laws, it is hard to carry out any codification. Only after the new Constitution is enacted, it would be possible to pass mutually compatible laws harmonized with the legislation of the European Union. Speaking from the viewpoint of the Republic Government, Minister Batic stressed that the Privatization Law as one capital law has been enacted, the debate on modifications and supplements to the Criminal Law is underway, in which the criminal act of corruption is incorporated for the first time and under which the criminal acts in the field of economic criminality will be sentenced more strictly; the new Law on Court Fees and Taxes has also been enacted, aimed at preventing further erosion and devaluation of judicature.

Another problem highlightened by Minister Batic are personnel changes in the judiciary. General lustration was not carried out after the change of regime because of lack of political consensus. However, at the Republic level, of the total of 163 courts of all jurisdictions, 150 new Presidents of courts were appointed, as well as about 150 judges. In future, the High Judiciary Council will be in charge of appoint-

ing the judiciary officials, but it is nevertheless necessary to change the Law on Judges and add the provisions on, if not total, then at least partial lustration in the judiciary.

When it is about improvement in material position of the judicature, Minister Batic underlined that the story on free and independent judicature is "bare demagogy or barren rhetoric" since only the people with satisfactory material position could be free and independent. At the same time, improvement in material standing should also mean increase in responsibility of judiciary officials.

Minister underlined that we have both experts and potential, we have the future, especially among young judges and judiciary officials who have thirst for knowledge and affirmation and only need to be offered a chance. For that purpose, the Judges' Association, in cooperation with the Ministry of Justice, set up the Education Center, which will enable the experts to gain knowledge in the field of modern European judiciary.

All the aforementioned reforms in the judiciary, Minister Batic concluded, should contribute improvement in efficiency of courts and enable the courts to follow the economic reforms and thus to take part in realization of the mentioned objectives, which are affirmation of the rule of law, market and social reforms.

PARTICIPATION OF THE JUDICIARY IN CREATION OF LEGISLATIVE POLICY AND PREPARATION OF LAWS

Dragor Hiber, a president of the Judiciary Committee in the Parliament of the Republic of Serbia and professor at the Law Faculty, University of Belgrade, underlined the economic and legal fact that, in the process of economic transition in the area of legal institutionalization of the economic life, there are three processes underway: firstly, deregulation and liberalization, secondly, establishment of institutions, market economy institutions in particular, and finally, reform of existing institutions and their harmonization with equivalent institutions in developed countries with market economy, primarily the EU countries.

With the beginning of transition, professor Hiber continued, there is a hidden conflict between factual and legal part of legal system and the existing legal framework becomes too narrow for transitional objectives, wishes and reforms. In long-term sense there is a historical necessity, which is that legal framework breaks and factual needs win, but in the first stage that conflict seems sharp with uncertain short-term outcomes and with not always certain and positive consequences. Our judiciary today is in similar situation, because there is much talk on the institutional and non-institutional in our judiciary reforms.

Considering everything mentioned so far, Mr. Hiber made a special highlight on two, on his opinion, potential sources of strategic problems due to non-distinguishing two phenomena or terms, which are legislative policy and legislative activity.

In our country there is a problem when it is about legislative policy and legislative activities, expressed through existence of "institutional polycentrism" (a phenomenon of relation between federal and republic authorities), which stand as a decelerating factor in reforms. Therefore, professor Hiber thinks that if the process of atrophy and deceleration continues, our process of reform will start either in uninstitutional way or toward blind alley. Another question in respect of legislative policy, professor Hiber emphasized, is harmonization with the European law and a principal question on what kind of laws we want to have. Whether we want transitional laws for pursuing transition and implementation of changes, which are exhausted through that purpose, or laws which build up and regulate institutions in the way that essentially results from transition. The question is really a fundamental one with no universal answers and the legislator must be aware of this dilemma.

As for legislative activities, professor Hiber stressed that larger engagement of judiciary officials in activities of preparation of laws is necessary, as well as their education for application of new institutes. Professor Hiber also underlined that in some new law proposals there is a noticeable impact of Anglo-Saxon legislation and in others of continental law, which is not good since the uniqueness of legal system is a *condiotio sine qua non* of the rule of law.

Therefore, Mr. Hiber concluded, the legislature, executive authorities, judiciary, as well as the experts, should create bodies that are not only round tables for discussions, but also for creation, in the form of initiatives, the future legislative policy, which is a prerequisite for good judiciary.

RESTORATION OF THE JUDICIARY IN TERMS OF ORGANIZATION, STATUS, MATERIAL POSITION AND EXPERTISE IS NECESSARY

Slobodan Vucetic, a judge in the Constitutional Court of the Republic of Serbia highlightened three main areas of legal reforms related to the relation between the judiciary and economic system, on which the main emphasis should be put on, and the legislative and any other activities should be intensified.

The first area which requires intensified and completed legal reforms is the judiciary. Mr. Vucetic underlined that it is inexcusable to pass new laws that are not previously verified by the experts. He puts huge hope on the High Judiciary Council, which should finally pursue a complex function of proposing the candidates for judges and prosecutors in a competent way, which have been carried out by the Judiciary Committee so far and subjected to large political influence. Another priority in the judiciary reforms should be intensive education of judges and prosecutors and their introduction to the essence of new legislative solutions, including introduction to the EU legal standards, which are the inspiration for new legislative projects and reform as a whole.

As for the personnel changes in the judiciary, Mr. Vucetic pointed to the missed opportunity for enacting the Lustration Law, which should have set very precise criteria and procedures for implementation of personnel reforms; on his opinion, adoption of the new Constitution is an opportunity to revise that mistake. Prior to adoption of the new Constitution, however, it is necessary that the High Judiciary Council in cooperation with the Ministry of Justice and courts set the criteria and procedures for implementation of lustration. The next step necessary in implementation of the judiciary reform is improvement of its material standing. As s suggestion in respect of this issue, he stressed the possibility to form an institution of the judiciary budget as a relatively autonomous part within the Republic budget. Finally, Mr. Vucetic discussed procedural laws important in the view of the efficiency of implementation of economic reforms. These laws should incorporate principles that exist in the EU countries, so as to enable all economic disputes to be resolved efficiently and impartially, in accordance with the market philosophy of economy, and therefore it is important to pass the Arbitrage Law as soon as possible.

The third area of reforms in the legal system which Mr. Vucetic addressed, is adoption of system laws necessary for realization of economic reforms, many of them have never existed here (legislation on insurance of assets, on mortgage bank, on land registers), while those which already exist need changes; he listed examples of numerous laws, including the Law on sanation, liquidation and bankruptcy, the Law on enterprises, the Law on foreign investments, etc. On his opinion, the future economic subjects in disputes, especially future foreign investors, cannot imagine any business engagement without confidence in quality of legislation, independence of courts and safe mechanisms of insurance of their own investments.

Mr. Vucetic concluded that the judiciary could not be responsible for slowdown in reforms and problems in economic life, if it makes verdicts based on the existing laws, although those laws are bad, imprecise and outdated (judiciary legalism). In order to prevent judiciary legalism from obstructing normal economic life, it is necessary to work simultaneously on re-establishment of the judiciary in organizational, status, material and expertise sense, adoption of new, modern and quality procedural regulations and adoption of those material regulations that are key regulators of modern economic life.

AFFIRMATION OF THE CHAMBRE SYSTEM IN TRANSITION

Slobodan Korac, the president of the Yugoslav Chamber of Commerce stressed that in the sense of economy, the judiciary is a basis for market economy and without judiciary the economy cannot function. On his opinion, we have been in transition for decades and therefore we should not think whether we are going to apply some transitional solutions for a while, but we should immediately start building up real institutions as those which exist in the world.

Giving the example of the chamber system, Mr. Korac underlined that our system of chambers was created along the similar lines with continental model, while today the system of chambers is under large influence of Anglo-Saxon model. This influence results in totally destroyed system of chambers in most transition countries, while Slovenia, Croatia, and B&H resisted it and we are in similar position today. Destruction of the system of chambers in a country undergoing the transition

leads toward inexistence of any association in economy, and lack of possibility to articulate its interests; the economy is not able to communicate with the authorities and has no way to fight for its participation in functioning of the state.

Mr. Korac also pointed to the fact that the private propriety is a basis of market economy and the judiciary, which does not respect this fundament, will not contribute to the further development of our economy and market relations. Therefore, adoption of system laws is of great importance for the economy, especially those under prerogatives of Federation, and a solution for unblocking of work of the federal organs must be found as soon as possible since the economy itself as well as the society as a whole suffer most because of this problem.

Concluding his introductory speech, Mr. Korac emphasized that the chamber system in Yugoslavia tends to affirmate and introduce Yugoslav economy into the world courses and that the Yugoslav Chamber of Commerce restored its earlier famous foreign trade arbitrage, which should, together with the new Arbitrage Law that is underway, start functioning.

THE LEGISLATIVE AND LEGAL PROBLEMS FACED BY THE NATIONAL BANK

Dusan Lalic, the Director-General of the Direction for legislative and legal activities of the National Bank of Yugoslavia touched the point of legislative and legal problems the NBY faces.

The National Bank of Yugoslavia deals with proposing creation and adoption of new legislation, such as the Law on prevention of money laundry. The NBY made a draft of this Law in cooperation with other competent institutions and with technical assistance from the abroad in terms of main principles and criteria the Law should contain. The problem is that the foreign consultants, through technical assistance, attempt to impose national solutions in force in their own countries, either Anglo-Saxon or continental, or even some specific solutions and criteria of particular international organizations dealing with money laundry.

Another problem is, as Mr. Lalic emphasized, a question of new legislation and consequent need for education of the judiciary personnel. For educational purposes, the NBY will organize a number of gatherings aimed at introducing the judiciary officials to the matter that should be regulated by the law in question, but also at confrontation of different opinions and discussion of potential problems as.

The National Bank of Yugoslavia also works on amendments to the NBY Law so as to strengthen its independence (institutional, personal and financial) as well as on providing implementation of some provisions in the area of monetary policy. He also mentioned activities on amendments to The Law on foreign currency payment operations aimed at liberalization of foreign currency payment operations, while the new Law on payment operations has been enacted and enters into force as of the next year. Mr. Lalic highlightened the role of by-laws related to application of new laws, expressing the opinion that, although it is not good to have too many by-laws, in some areas, such as prevention of money laundry and new system of payment operations, they are necessary in order to adjust the regulations to the requirements of economy. The National Bank of Yugoslavia worked on creation of all legislative projects in cooperation with the Union of Banks and other financial organizations, taking into consideration opinions and suggestions of relevant experts, as Mr. Lalic concluded.

THE CONTROLING FUNCTION OF THE NATIONAL BANK PRESENTS THE CLOSEST RELATION WITH THE JUDICIARY

Nina Zugic, an assistant to the Director General of the NBY Sector of the controlling activities, stressed that the NBY has the most direct contacts with the judiciary through pursuing its controlling function, through which it controls, penalizes and closes the banks. This brings about tension in relations with the judiciary. She tried to point to the objective reasons for some acts and activities of the NBY to be characterized as unconstitutional.

Regardless of introduction of market principles and freedom in decision-making of economic subjects, banks are the institutions of public interest in the countries of liberalized capitalism, as well. Bank has always differed from enterprise in the sense that breakdown of a bank has serious consequences on the system as a whole. Because of that, current Law on Banks incorporates principles of limitation of the banks' activities, which are adjusted to the EU Directives. As opposed to other institutions, the NBY has wider discretionary rights in controlling and penalizing banks, which are precisely regulated by the law, but in an important part are based on its discretionary assessment. Currently, the activities on amending the Law on banks

are underway, as well as on the new NBY Law, which will govern the NBY controlling function differently and in full compliance with the European standards and practices of the developed market economies. However, considering the resent traumatic experience with the Federal Court, there are some dilemmas on comprehension of the NBY discretionary rights, in the view of verdicts in which the banks are favored in disputes with the NBY. If such a philosophy continues, it will be hard to attain objectives the amendments of the law are directed toward.

At the end of her speech, Mrs. Zugic proposed that, considering specific characteristics of the banking system, there should be some educational courses organized for the judiciary officials, since it is very hard for them, too, to estimate the significance of particular phenomenon with no regard to its essence.

WE ARE THE COUNTRY OF A STRONG LEGAL CULTURE

Mirko Vasiljevic, a professor at the Law Faculty in Belgrade and the president of the Commercial Law Association, said that, considering the fact that our law is far away from institutionalism, the institutional solutions could be fully implemented only after Yugoslavia become full member of the EU, while, up to then, we need transitional solutions; our regulations could contain solutions which will disappear once we become the formal EU members.

On professor Vasiljevic's opinion, the solutions which have been already harmonized should not be considered in terms of changing them; only those not being harmonized, which are not at the level of European standards, should be considered in the sense whether the European or the USA legal solutions are more appropriate for their regulation. He especially underlined significance of the issue of administration system within an enterprise, as well as the issue of the employees' participation in organization of an enterprise, emphasizing that the EU has recently adopted the Statute of the so-called European company, which is coupled with regulations on the employees' participation in administrative and supervisory committee of the European company; these regulations provide for national solutions to be pursued again, in the best proportion which exists in national states when it is about the European company owned by two owners from two or more countries.

Professor Vasiljevic has similar opinion on other commercial laws, i.e. there should be no discussion on the harmonized solutions which exist as harmonized at the EU level, they should be only adjusted, while those at national level require expert discussion so as to find out what is the most appropriate solution in accordance to our sensibility and developmental needs.

Professor Vasiljevic concluded that we are, in terms of expertise, a country of strong legal culture and we have relatively educated basis for holding qualified expert discussions prior to accepting easily imposition of various national solutions.

TRANSITIONAL LAWS CURE THE STATE OF ILLNESS

Milan Parivodic, a lawyer and assistant at the Law Faculty in Belgrade stressed that when talking about adoption and adjusting of the commercial laws, we should be guided by three principles: harmonization, deregulation and liberalization.

Mr. Parivodic made a special highlight on the issue of legal policy. On his opinion, the Preamble should be introduced to our legal nomotechnique since the EU regulations have the preambles. The Preamble should contain the issues related to legal policy: definition of objectives, directions for interpretation for those who apply the law - courts or administrative organs in case of dilemmas on application of the law.

Mr. Parivodic calls transitional laws remedial, curative, which heal the state of illness and turns it into normal, and only then the things should be institutionally set on its place and develop normally and in harmonization with the EU. He points out to several, on his opinion, important remedial laws: the Law on unmonopolization of public enterprises, the Privatization Law which has been already enacted, followed by very important Law on denationalization, the issue of rehabilitation of those unjustly accused, assassinated and the issue of lustration, which is also opened and caused sharp divisions in society.

The next issue Mr. Parivodic addressed was the status of the Anti-monopoly Law and proposed its completion in compliance with experiences which exist in the EU - for disputes to be settled by the commercial courts and for specialized committees to be constituted whose members will be additionally educated and sent to the European court of Justice and the European Court of the first instance to learn the competition law and built up practice harmonized with these institutions.

When it is about the relation between continental and common law. Mr. Parivodic finds that there is an indisputable trend of convergence of these two systems through increasingly important status of laws in the common law, process of Americanization of the commercial law and the so-called model laws.

Mr. Parivodic concluded that we should in no way rewrite British and American laws, although such examples unfortunately exist; on the other hand, we should adopt everything harmonized at the EU level, without rejecting the common law institutes at any price, since they are not rejected in even bigger legal systems than ours, especially when it is about the model laws.

"ACCELERATION" OF THE PROCESS OF REGISTERING ENTERPRISES

Radmila Dragutinovic - Mitrovic, an assistant at the Economic Faculty in Belgrade and associate of the G17 Institute presented the results of the G17Institute study "The price of doing business in Serbia", putting special emphasis on the results of the study related to the issue of registering an enterprise. With regard to the results of the poll carried out in about 476 enterprises from the whole Serbia, it turned out that legal procedure for registering enterprises is complicated and long. The first conclusion is that on one hand we have extremely long period of waiting for termination of registering procedure in the case of official payment of contributions, while on the other hand, there are extremely high costs of registration paid by some enterprises, in the case of search for alternative ways as to speed up registering procedure (lawyer's costs or "acceleration" of the process through corruption). The total time necessary for full completion of registering procedure averaged 105 days, but excluding the extreme values, the average is lower, but still too long - 50 days. The next conclusion is expressed through the number of working days (26 working days) of waiting for the procedure to finish, while the entrepreneurs have to visit state officials several times until the procedure ends. The third conclusion is correlation or statistical connection which exists between the duration of waiting for registering procedure to end and the sum paid for its ending. The enterprises which took the regular procedure in registering process did worst and most expensive, both in terms of spent time and expenses, followed by the enterprises which used the lawyer's services, while the best were those enterprises which paid bribe during registering procedure.

Mrs. Dragutinovic-Mitrovic, with regard to such results of the study, which enlighten only one segment of work of some state organs, concluded that it is necessary to simplify the registering procedure, but also the procedures related to business activities of an enterprise, since these procedures are also long and complicated.

COMMERCIAL COURTS SHOULD BE EXCLUDED FROM THE REGULAR JUDICIARY SYSTEM

Goran Savic, a judge of the Court Register Department of the Higher Commercial Court in Belgrade, stressing the importance of commercial courts in implementation of economic reforms, said that they are an ingredient part of economy and exist only for the sake of economy. Today, Mr. Savic continued, these courts are not a part of economy and therefore they should be excluded from regular judiciary system, and their organization and way of work should be adjusted to the needs of economy. The paradox is that these courts are in very unenviable situation and, on his opinion, stand as the most quality part of our judiciary.

Mr. Savic underlined that for better quality of laws it is necessary to have larger, or even compulsory engagement of judges of commercial courts in their adoption, as well as that engagement of the judiciary officials is a way for resolving the problem of their efficiency. Mr. Savic gave the example of the current Law on litigation procedure which should allow the dispute between two economic subjects to be resolved more efficiently.

On Mr. Savic's opinion, education of judiciary personnel may be carried out much cheaper in our country, because people are ready to set aside time and energy, and without any compensation; it is not their own private interest, but also the state interest.

At the end of his speech, Mr. Savic said that there is a hypertrophy of talks on the subject without actual resolving it, and he appealed to organization of the meeting with the main emphasis on the judiciary, on which judiciary representatives would express their opinion on particular problematic issues, and which will be binding to someone as to undertake some concrete actions.

REAL PRIORITIES HAVE NOT BEEN SET

Gordana Mihajlovic, a judge and president of the Second Municipally Court in Belgrade finds that the authorities have not set real priorities, pointing to the ques-

tion of denationalization and municipal building land and putting a special emphasis on the question of land registers, i.e. whether we want to have land registers or not. If we do, it is necessary to pass the quality law, transfer to electronic keeping of land registers which would satisfy the needs of economy and commerce. Mrs. Mihajlovic stressed that foreigners, not understanding the way of (non)registering the land in our country, do not want to give credits or put a mortgage to our companies, which is bad for economy. Therefore it is necessary first to pass such laws which are important for implementation of economic reforms.

Mrs. Mihajlovic thinks that fast enactment of the Law on notary public would lead to a kind of legal chaos and has no thrust in that institution, but it is necessary to wait with this law, expose it to the public discussion, predict high penalties in order to avoid being again in situation that courts have more job then they would have had if they had notarized contracts.

As for lustration, Mrs. Mihajlovic points that she is not against the initiative for dismissal of judges, but against the way on which the initiative was started, and that "Non-legal cannot be revised by non-legal", but there should exist a legal procedure. On her opinion there is also a question of priority in the judiciary reform, stressing that we have insufficiently quality courts in terms of personnel, because it is about young judges without enough experience, and thus it will need some time for the courts to start working in quality manner.

Finally, Mrs. Mihajlovic touched the point of material standing of courts, underlining that improvement in working conditions (space, offices, office desks) would be cheaper for the state then increase in salaries. Owing to such bad working conditions in courts, there can not be expected more than the present level of accomplishments.

RESULTS OF REFORMS SHOW THE RELATION BETWEEN THE LEGAL AND ECONOMIC SYSTEMS

Emilija Vukadin, professor of the Law Faculty in Belgrade stressed that for complete outlook of relation between the judiciary and economic reforms, it is necessary to set a relation: the legal system i.e. its institutions - judiciary - economic reforms. Legal system must be a starting point because there is recurrent conjunction between legal and economic system; this is a dynamic relation and the impact of that conjunction will be noticeable only after the economic reforms starts to yield results. In that sense, economic reforms must be pursued simultaneously with the reform of legal system, meaning the following: firstly, new material legislation adjusted to the market economy, including harmonization with the EU, and secondly, appropriate change in its operative mechanisms.

Mrs. Vukadin further points out that an efficient market economy requires the legal system which provides primarily the principle of tight budgetary limits, followed by protection of private propriety rights and holders of these rights, compensation of damages (criminal legislation) and initiation of the bankruptcy and liquidation procedure as soon as there are conditions for it.

As a conclusion, Mrs. Vukadin emphasized that economic reforms and establishment of market economy directly depends on whether the adequate legal system is erected with corresponding judiciary, since it should be kept in mind that, in time, strong signals from economy will start warning that legal regulations and legal protection are *conditio sine qua non* of security of doing business, which is insisted on and which is significant for all micro economic subjects, and secondly, not only business security but also good business results.

COURTS AND LABOR DISPUTES

Goran Novakovic, an assistant at the Law Faculty in Nis made a few observations about the work of judiciary i.e. courts from the perspective of labor legislation. Mr. Novakovic underlined that the new law on court organization, the prerogatives for settlement of labor disputes are divided between the municipal and district courts, but not equally. Municipal courts, as Mr. Novakovic emphasized, continue to judge cover 95% of labor disputes, namely the disputes over initiation, existence and termination of employment and disputes over rights, obligations and responsibilities on the basis of employment. On Mr. Novakovic's opinion, municipal courts could have been disburdened by assigning larger part of prerogatives to district courts, but it would be ideal to have special courts which exist in some European countries. In this way the majority of labor disputes is left in municipal courts, with all the problems those courts have in sorting out them. Under the Law on litigation procedure, the labor disputes are urgent, but the practice does not respond to that ur-

gency just because of application of the mentioned law's provisions, causing the labor disputes to last, as long as any other litigation, for several years. Another problem is a fact that labor disputes are judged by new judges who came from the economy and initiated their judiciary career late; on the other hand the matter had been changes throughout previous years and the practice is unadjusted and huge.

Mr. Novakovic concluded that this change in the Law on organization of courts and division of prerogatives have not resolved anything, and the very fact on inexistence of sanctions if the dispute is not resolved in defined time frame, point out that the legislator did not have serious attention to genuinely contribute to quality of resolving the labor disputes.

THE JUDICIARY AS A GUARANTOR OF ECONOMIC REFORMS

Vojislav Djurdjic, a professor at the Law Faculty in Nis stressed that he sees the role of the judiciary in implementation of economic reforms as two-folded: complementary role, meaning that simultaneously with economic reforms enables their implementation; and a role of guarantor so as to act as a guarantor for implementation of reforms in case of stoppage.

Mr. Djurdjic underlined that the judiciary can not be distinguished from legal system and therefore a necessary condition is change in legal regulations, which includes material, organizational and procedural legislation. When it is about material law, Mr. Djuric suggested that a list of material sources of legislation necessary for economic reform to develop toward defined objectives is created, while as for organizational legislation, he finds that some ideal or widely accepted solution could turn out into its own opposition. Mr. Djurdjic therefore thinks that many provisions in newly adopted laws could turn into their own opposition, preventing the goals that are set realistically, to be attained. He advocates division of judiciary and politics, where one of the solutions could be the High Judiciary Council, but also thinks that the Council, not completely but largely, suffers political influence, in the same way as in the previous solution.

Apart from education of the existing personnel that should respond to the needs of transition, Mr. Djurdjic mentioned that it is necessary to carry out the educational reform at university in the field of curriculum, methodology and examination, i.e. testing if they are able to enter into the judiciary. In that way, Mr. Djurdjic stressed, a connection between legal science and legal practice would be provided.

At the end of his speech, Mr. Djurdjic stood at the position of defense of the judges and whole judiciary personnel, since they should be given more trust in their ability to carry out the reform in question.

Mirko Zivkovic, a professor at the Law Faculty in Nis stressed that, keeping in mind the fact of existence of "ill" parts in legislation, there is a question if there are some parts which are completely "healthy". On his opinion, there are such parts and they exist in form of international contracts. Since 1881 and the Contract on trade and shipping with America, a whole corpus of regulations which are part of internal legislation is created. There are authoritative collections of these contracts and they should be published on the Internet, so as the judges could use them as an ingredient part of internal legislation.

Mr. Zivkovic suggested that all two or many-pages contracts should be examined so as to check what their parts are still in force, where we have continuity of membership and what conventions should be accepted. On his opinion there are many good conventions ratified by all representative countries, which evolved into real charters in their fields. This could be a way for our legislation to be indirectly, but properly harmonized so as to join big family of states, not only European but also non-European countries (such as the UK and the USA), which have equal solutions in particular legal issues.

CONCLUSION

The participants in discussion were very precise in presenting the problems they face and in criticizing some existing solutions. They clearly expressed a wish for concrete actions that should be undertaken so as to began legal and economic reforms develop successfully. In that sense it is assessed that there should be organized a meeting on which the judiciary representatives would discuss the problematic issues, with binding decisions so as to undertake concrete reformist steps. Professor Hiber's proposal, that legislature, executive authorities, judiciary and experts should set up bodies which are not only round tables for discussions, but also places for initiatives for future legislative policy, was welcomed. Reporting from this gathering, the G17 Institute makes the first step in an initiative for professor Hiber's suggestion to be realized in practice.